

**City of Farmers Branch, Texas  
Comprehensive Annual Financial Report**

For the Year Ended September 30, 2006

**City Council:**

Bob Phelps  
Ben Robinson  
Tim O'Hare  
Charlie Bird  
Jim Smith  
Bill Moses

Mayor  
Mayor Pro Tem, Place 5  
Deputy Mayor Pro Tem, Place 2  
Place 1  
Place 3  
Place 4

**City Manager**

Linda Groomer

**Prepared by**

Finance Department  
Charles S. Cox, Director

CITY OF FARMERS BRANCH, TEXAS

Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006

TABLE OF CONTENTS

INTRODUCTORY SECTION:	Exhibit	Page
Letter of Transmittal		i
Organization Chart		vi
List of Principal Officials		vii
Certificate of Achievement		viii
 FINANCIAL SECTION:		
Independent Auditors' Report		1
Management's Discussion and Analysis (unaudited)		2
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	A-1	11
Statement of Activities	A-2	12
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	B-2	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	B-3	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	B-4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund - Budget and Actual	B-5	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Landfill Closure/Postclosure Fund - Budget and Actual	B-6	22
Proprietary Funds:		
Statement of Net Assets	C-1	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	C-2	24
Statement of Cash Flows	C-3	25
Notes to Basic Financial Statements	D-1	27
Required Supplemental Information:		
Texas Municipal Retirement System Analysis of Funding Progress (unaudited)	E-1	44
Other Supplemental Information:		
Combining and Individual Fund Statements and Schedules:		
Combining Financial Statements - Nonmajor Governmental Funds:		
Combining Balance Sheet - Summary	F-1	49
Combining Balance Sheet - Nonmajor Special Revenue Funds	F-1a	50
Combining Balance Sheet - Nonmajor Capital Projects Funds	F-1b	52
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Summary	F-2	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	F-2a	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Capital Projects Funds	F-2b	56
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual		
General Fund	G-1	61
Nonmajor Special Revenue Funds	G-2	62
Debt Service Fund	G-3	66
Combining Financial Statements - Internal Service Funds:		
Combining Statement of Net Assets	H-1	68
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	H-2	69
Combining Statement of Cash Flows	H-3	70

(continued)

CITY OF FARMERS BRANCH, TEXAS

Comprehensive Annual Financial Report  
For the Year Ended September 30, 2006

TABLE OF CONTENTS

STATISTICAL SECTION (UNAUDITED):

	Table	Page
Net Assets by Component - Last Five Fiscal Years	1	72
Changes in Net Assets - Last Five Fiscal Years	2	73
Fund Balances, Governmental Funds - Last Five Fiscal Years	3	74
Changes in Fund Balances, Governmental Funds - Last Five Fiscal Years	4	75
Estimated Actual and Assessed Value of Taxable Property - Last Ten Fiscal Years	5	76
Direct and Overlapping Property Tax Rates - Last Ten Fiscal Years	6	78
Direct and Overlapping Property Tax Levies - Last Ten Fiscal Years	7	80
Principal Property Taxpayers - Current Year and Nine Years Ago	8	82
Property Tax Levies and Collections - Last Five Fiscal Years	9	83
Ratio of Outstanding Debt by Type - Last Ten Fiscal Years	10	84
Direct and Overlapping Governmental Activities Debt - September 30, 2006	11	86
Pledged Revenue Coverage - Last Ten Fiscal Years	12	87
Demographic Statistics - Last Ten Fiscal Years	13	88
Principal Employers - Current Year and Nine Years Ago	14	89
Full-Time Equivalent City Government Employees by Function/Program - Last Five Fiscal Years	15	90
Schedule of Insurance Policies in Force - September 30, 2006	16	91
Operating Indicators by Function/Program - Last Ten Fiscal Years	17	92
Capital Asset Statistics by Function/Program - Last Ten Fiscal Years	18	94

CONTINUING FINANCIAL DISCLOSURE TABLES (UNAUDITED):

Valuation, Exemptions, and General Obligation Debt	CD-1	98
Taxable Assessed Valuations by Category	CD-2	99
Valuation and General Obligation Debt History	CD-3	100
Tax Rate, Levy, and Collection History - Last Five Fiscal Years	CD-4	101
Ten Largest Taxpayers - Fiscal Year 2007	CD-5	102
Tax Adequacy	CD-6	103
General Obligation Debt Service Requirements and Special Assessment Debt Service Requirements	CD-7	104
Interest and Sinking Fund Budget Projection	CD-8	106
Computation of Self-Supporting Debt	CD-9	107
Hotel/Motel Tax Revenue - Last Ten Fiscal Years	CD-10	108
Hotel Occupancy Taxpayers - September 30, 2006	CD-11	109
Authorized but Unissued General Obligation Bonds	CD-12	110
General Fund Revenue and Expenditure History - Fiscal Years Ended September 30	CD-13	111
Municipal Sales Tax History - Last Five Fiscal Years	CD-14	112
Current Investments - September 30, 2006	CD-15	113
Special Assessment Collections and Debt Service - Enterprise Fund - Fiscal Years Ended September 30	CD-16	114
Historical Water and Wastewater Usage - Last Five Fiscal Years	CD-17	115
Top Ten Water Consumers - September 30, 2006	CD-18	116
Monthly Water and Sewer Rates - Last Ten Fiscal Years	CD-19	117
Condensed Statement of Water and Sewer System Operations - Fiscal Years Ended September 30	CD-20	118
Value of Water and Sewer System - Fiscal Years Ended September 30	CD-21	119
City's Equity in Water and Sewer System - Fiscal Years Ended September 30	CD-22	120



January 22, 2007

Honorable Mayor and City Council  
City of Farmers Branch  
Farmers Branch, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Farmers Branch, Texas for the year ended September 30, 2006. The purpose of the report is to provide the Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

## **THE REPORT**

The Texas Local Government code (§103.001) requires annual audits of municipalities and the City Charter (Sec. 2-18) requires an annual audit of the books of account, financial records, and other evidence of transactions by a certified public accountant within 120 days of the end of the fiscal year. These requirements have been fulfilled and the independent auditors' report is included with this report for the fiscal year ended September 30, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Deloitte & Touche L.L.P. have issued an unqualified opinion on the City of Farmers Branch's financial statements for the year ended September 30, 2006. The independent auditors' report is located at the front of the financial section of this report.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The report is presented in four sections: introductory, financial, statistical, and continuing financial disclosure tables. The introductory section includes this letter of transmittal, the City's organizational chart, a list of principal officials, and the Government Finance Officers Association of the United States (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the City's 2005 report. The financial section includes management's discussion and analysis (MD&A), government-wide and fund financial statements, notes to basic financial statements, and required supplemental information, as well as the independent auditors' report on the basic financial statements. The newly revised statistical section includes five categories of information presented on a multi-year basis. The categories include financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. The continuing financial disclosure tables present various financial data originally distributed in a debt official statement.

Management's discussion and analysis immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter and should be read in conjunction with it.

## **PROFILE OF THE GOVERNMENT**

The City of Farmers Branch (City) covers approximately 12.5 square miles and is conveniently located on Dallas' northern border. It lies in the heart of an 11-county area that has emerged as a premier commercial, financial, and trading center. Two major interstate highways and the Dallas North Tollway border the City. The Dallas/Fort Worth International Airport and the Dallas Love Field Airport are only minutes from Farmers Branch. These factors all contribute to the favorable business climate existing within the City.

The City of Farmers Branch was incorporated in 1946 under the general laws of the State of Texas. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of the Mayor and five other at-large members, all elected on a non-partisan basis. The term of office is three years, with the terms of the Mayor and three of the Councilmembers' terms expiring in even-numbered years and the terms of the other two Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City.

Although the residential population has been recently estimated at 27,850, Farmers Branch serves a daytime population of approximately 90,000. The City provides a full range of municipal services including police, fire, emergency ambulance, sanitation, library, construction and maintenance of streets and municipal utilities, parks and recreation, water and sewer, planning and zoning, economic development, and general administrative functions. The City of Farmers Branch also is financially accountable for the Farmers Branch Housing Finance Corporation and the Farmers Branch Industrial Development Corporation, which are included as discretely presented component units and the North Dallas County Water Supply Corporation, which is included as a joint venture. Additional information on these three entities can be found in the notes to the financial statements (See Note 1.A).

The Council enacts the budget through passage of an ordinance prior to the start of each fiscal year. This budget serves as the foundation for the City of Farmers Branch's financial planning and control. Annual budgets are prepared for all governmental funds including the general fund, debt service fund, and special revenue funds. Capital projects funds are budgeted over the life of the project. The City Manager is authorized to transfer resources within each division's summary budget category. Council approval is necessary for all other transfers (See Note 2.A).

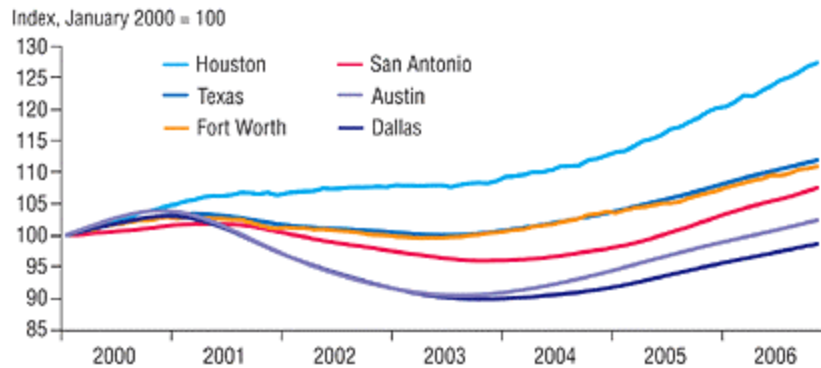
## **LOCAL ECONOMY**

The City's broadly diversified economic base supports home furnishings, financial, high-tech, insurance, and telecommunications industries, and includes many of the nation's foremost businesses. Farmers Branch is the location of choice for 65 corporate headquarters, 24 Fortune 500 corporations, and approximately 2,600 small and mid-size firms. Approximately seventy-seven percent (77%) of the City's tax base comes from the business community. The occupancy rate for office space and retail/industrial/warehouse space is 75 and 85 percent respectively. These occupancy rates are consistent with the average rates in the north Dallas area.

According to the Federal Reserve Bank of Dallas' January 2007 economic report, the Dallas economy moved forward at a solid pace in November. The metro's [business-cycle index](#) rose at an annualized rate of 3.4 percent, and employment increased by 2.6 percent. Through November, the metro added 54,400 jobs, at an annualized pace of 3 percent. Employment gains remain

broadly based across sectors. Construction employment continued to rise in November, in part due to strong demand for office and hotel space, according to business contacts. Service-sector job gains were robust during the month, with hiring in most major industries, including trade, transportation and utilities; financial activities; and educational and health services.

### Business-Cycle Indexes: Texas and Major Metros



General fund revenues continued to show improvement in fiscal year 2006. Total revenues of \$39.6 million represented an increase of 7.0% over the prior year. Reflecting the region's general recovery, sales tax receipts increased 4.2%, property tax revenues increased 2.8%, and licenses and permits revenue increased 28.2%.

The fiscal year 2007 budget was developed projecting continued revenue growth at a moderate pace. General fund revenues have been budgeted at \$3.3 million more than the fiscal year 2006 amended budget. The proposed budget maintains the property tax rate of 49.45 cents. Property tax revenues are projected to increase 7.0%. Sales tax revenues are anticipated to increase by 5.8%. New revenues totaling \$1.1 million for photographic red-light enforcement have been added to the budget; however, costs of administration and enforcement will offset these revenues. Water consumption increased 20% during fiscal year 2006 due to prevailing drought conditions. The fiscal year 2007 water sales budget assumes a 13.4% decline due to a return to average annual sales.

## LONG-TERM FINANCIAL PLANNING

Users of this document as well as others interested in the programs and services offered by the City of Farmers Branch are encouraged to read the City's 2006-2007 Fiscal Year Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Budget also includes long-term financial plans for the general fund that forecasts revenues and expenditures over a five-year horizon. The document can be obtained from the City of Farmers Branch's finance department by calling (972) 247-3131. The Budget can also be accessed through the City's web site at [www.farmersbranch.info](http://www.farmersbranch.info) and selecting the Finance department using the web site's "department quicklink."

The Public Improvement District (PID) program, without which development on the east side could not have occurred, provided tax abatement incentives for development. Development initiated in this district will add \$1.4 million in property tax revenues once the ten-year incentives begin to expire. These incentives began to expire in fiscal year 2004 at which time \$400,000 was

added to property tax revenues. This amount will continue to increase until fiscal year 2009 when \$1.4 million dollars in tax revenue will be added. Similar long-term improvements to the City's tax base should come from the Tax Increment Finance (TIF) district formed in the light rail station area and on the City's west side.

A major milestone will be achieved in August 2007 when the last payment will be made on a major bond issue. After this payment is made, annual debt service for property tax supported debt will decline from \$3.2 million per year to \$470,000 per year making the City virtually debt free. This creates an opportunity to consider the use of short-term 5-year maturity debt to supplement the existing pay-as-you-go capital funding plan. Projects under consideration for this funding include improvements to Webb Chapel, Midway Road, Benchmark Drive, and a new Animal Shelter. The new Fire Station No. 3 will be built during the year as a pay-as-you-go project completely financed by fund balances saved from prior years. Staffing costs of the station are anticipated to exceed \$1 million annually when the station opens.

### **RELEVANT FINANCIAL POLICIES**

The City's fund balance/operating position concept continues to be an important factor in policy decisions. The concept notes that the City will maintain an undesignated, unreserved fund balance to be used for unanticipated emergencies of 20% of the operating budget of the general fund. A net current assets balance of \$2.0 million is targeted for the water and sewer (enterprise) fund. These monies will be used to avoid cash flow interruptions, generate interest income, reduce the need for short-term borrowing, and assist in maintaining an investment-grade rating.

The City of Farmers Branch invests funds prudently and has adopted an investment policy which is reviewed annually by the City Council as prescribed by State law. Staff provides a quarterly report of investments for Council review. The City's investment practice is to buy securities and hold them to maturity to avoid potential losses from a sale. During fiscal year 2006, the City complied with all aspects of the investment policy.

### **MAJOR INITIATIVES**

In 1998, the City established a Tax Increment Finance District for the City's west side. This District encompasses over 800 acres of unimproved land. The goal of this District is to spur development in the last major undeveloped area of the City. Since the District was created, taxable values within the District have increased by \$31.5 million. Property taxes associated with this increment are used to accelerate public infrastructure improvements within the District. All taxing entities participate in funding these improvements. The District will legally expire in 2018.

### **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Farmers Branch for its comprehensive annual financial report for the fiscal year ended September 30, 2005. This was the seventeenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City believes its current CAFR continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning October 1, 2005. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

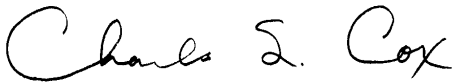
The preparation of this report on a timely basis was made possible by the dedicated service of the entire staff of the finance department and our independent auditors. We would also like to express sincere appreciation to all employees who contributed to its preparation.

In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,

A handwritten signature in black ink, reading "Linda Groomer". The script is fluid and cursive, with the first name "Linda" being more prominent than the last name "Groomer".

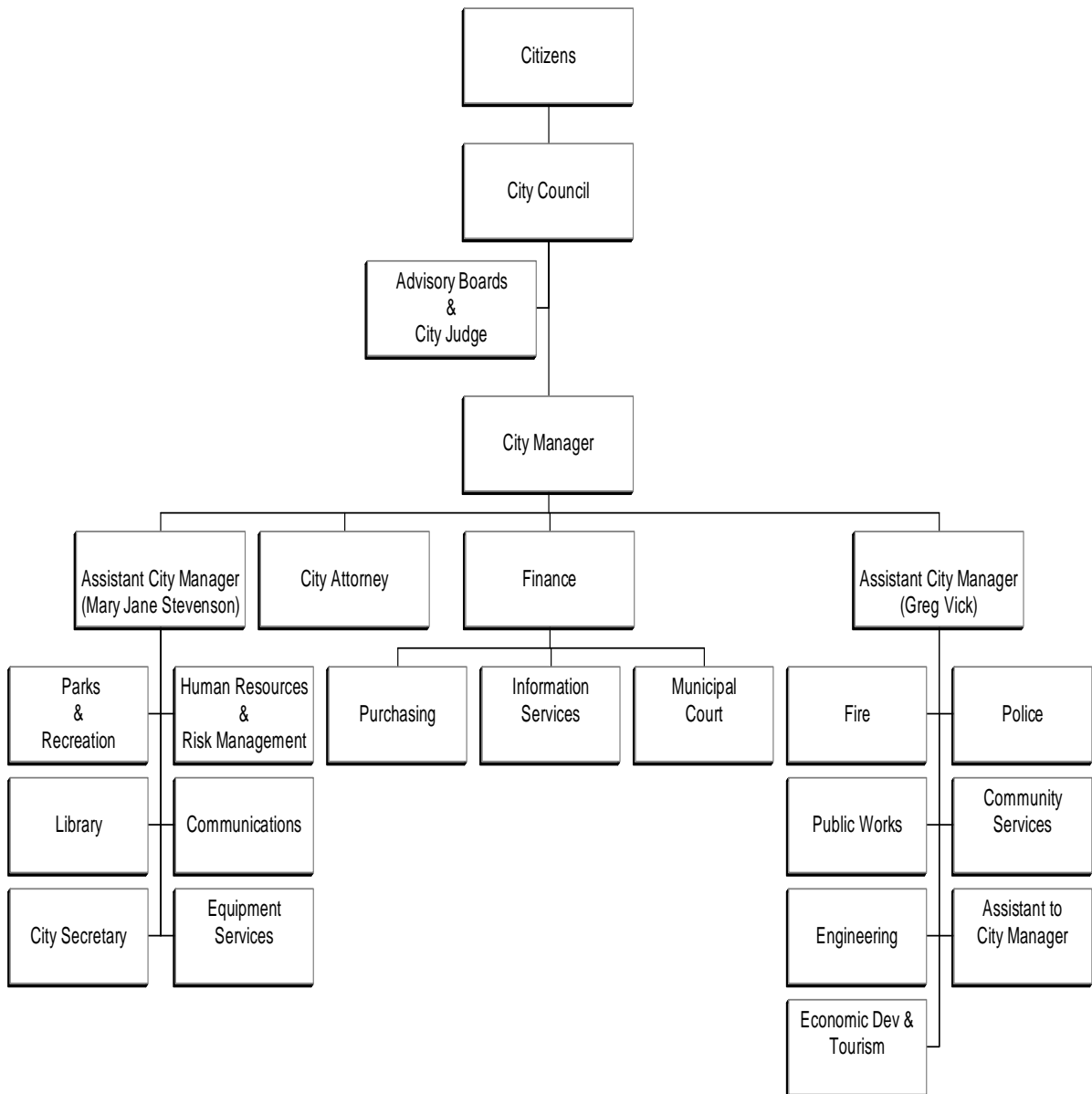
Linda Groomer  
City Manager

A handwritten signature in black ink, reading "Charles S. Cox". The script is cursive, with "Charles" and "Cox" being clearly legible, and "S." in the middle.

Charles S. Cox  
Director of Finance



# City of Farmers Branch



City of Farmers Branch, Texas  
List of Principal Officials

City Council

Bob Phelps  
Ben Robinson  
Tim O'Hare  
Charlie Bird  
Jim Smith  
Bill Moses

Mayor  
Mayor Pro Tem, Place 5  
Deputy Mayor Pro Tem, Place 2  
Place 1  
Place 3  
Place 4

Appointed Officials

Linda Groomer  
Mary Jane Stevenson  
Greg Vick  
Cindee Peters  
Jerry Murawski  
Tom Bryson  
Michael Spicer  
Norma Nichols  
Don Moore  
Charles S. Cox  
Kyle D. King  
Michael Perry  
Danita Barber  
Jeff Fuller  
Brian Dickerson  
Sid Fuller  
Mark Pavageaux

City Manager  
Assistant City Manager  
Assistant City Manager  
City Secretary  
City Engineer  
Communications Director  
Community Services Director  
Economic Development Director  
Equipment Services Director  
Finance Director  
Fire Chief  
Information Services Director  
Library Director  
Parks and Recreation Director  
Human Resources Director  
Police Chief  
Public Works Director

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Farmers Branch  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## INDEPENDENT AUDITORS' REPORT

Members of the City Council  
Farmers Branch, Texas

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information, of the City of Farmers Branch, Texas (the "City"), as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Farmer Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Farmers Branch, Texas, as of September 30, 2006, and the respective changes in financial position and respective cash flows, where applicable, thereof, and the budgetary comparisons for the General Fund and Landfill Closure/Post-Closure Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Required Supplemental Information – Texas Municipal Retirement System Analysis of Funding Progress are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Farmers Branch's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. This supplementary information is the responsibility of the City of Farmers Branch's management. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

January 12, 2007

# CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

As management of the City of Farmers Branch (City), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

## FINANCIAL HIGHLIGHTS

- The assets of the City of Farmers Branch exceeded its liabilities at the close of the fiscal year ended September 30, 2006 by \$180,429,269 (net assets). Of this amount, \$30,205,373 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net assets increased by \$7,824,400. The net assets in the governmental activities increased \$2,661,733. The net assets in the business-type activities increased \$5,162,667.
- At the close of the fiscal year ended September 30, 2006, the City's governmental funds reported combined ending fund balances of \$37,701,337. Approximately 85% of this total amount, \$31,984,001, is unreserved and available for use within the City's designation and policies. Designations for (1) construction \$8,264,492, (2) landfill closure \$6,711,158, (3) capital assets \$876,141, and (4) special purposes \$2,626,856, total \$18,478,647 and represent almost 58% of the unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$14,412,859 or 36% of the total general fund expenditures and transfers out. The unreserved and undesignated fund balance for the general fund was \$13,536,718 or 33% of the total general fund expenditures and transfers out. This represents a \$2,430,092 increase from the prior fiscal year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

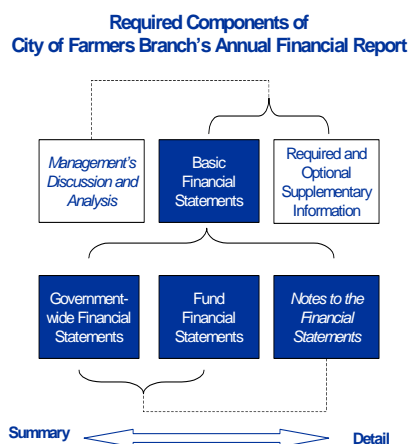
The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water and sewer and public improvement district (PID).

The government-wide financial statements can be found in Exhibit A of this report.

**Fund Financial Statements** - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.



## CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains 16 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, landfill closure/postclosure fund, non-bond capital projects fund, DART capital projects fund, and TIF No. 1 District capital projects fund, which are considered to be major funds. Data from the other 11 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found in Exhibit B of this report.

**Proprietary Funds** - The City maintains two types of proprietary funds. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer and public improvement district operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its equipment services and workers' compensation funds. Because these services predominantly benefit governmental rather than business-type functions they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found in Exhibit C of this report.

**Notes to Basic Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found in Exhibit D of this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found in Exhibit E of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplemental information on pensions. Combining and individual statements and schedules can be found in Exhibit F through Exhibit H of this report.

# CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

Major Features of City of Farmers Branch's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire, and parks	Activities the City operates similar to private businesses: such as water/sewer utility
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of net assets *Statement of revenues, expenses, and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting And current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after The end of the year; expenditures when goods or services have been received And payment is due during The year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

# CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Farmers Branch, assets exceeded liabilities by \$180,429,269 as of September 30, 2006.

The largest portion of the City's net assets (79.29%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (3.97%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (16.74%) may be used to meet the government's ongoing obligation to citizens and creditors.

Total assets of the governmental activities increased about 1.9% in fiscal year 2006. The increase in capital assets is mainly due to the completion of the street reconstruction for Josey Lane North. Total assets of the business-type activities increased 7.0% due to dry weather conditions, a 13.5% rate increase, and a transfer of capital assets from governmental activities during fiscal year 2006. The governmental activities liabilities increased 1.0% due to an increase in unearned revenues in the DART fund. The total liabilities for the business-type activities decreased as bond principal was paid.

## CONDENSED NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 45,150,269	\$ 45,012,911	\$ 24,425,210	\$ 21,412,320	\$ 69,575,479	\$ 66,425,231
Capital assets	124,343,649	121,316,991	40,887,512	39,599,986	165,231,161	160,916,977
Total assets	169,493,918	166,329,902	65,312,722	61,012,306	234,806,640	227,342,208
Noncurrent liabilities	44,543,118	45,416,961	3,070,680	3,703,811	47,613,798	49,120,772
Other liabilities	6,139,927	4,763,801	623,646	852,766	6,763,573	5,616,567
Total liabilities	50,683,045	50,180,762	3,694,326	4,556,577	54,377,371	54,737,339
Net assets:						
Invested in capital assets, net of related debt	98,657,412	93,781,812	44,402,198	42,492,826	143,059,610	136,274,638
Restricted	2,237,530	5,442,628	4,926,756	5,273,778	7,164,286	10,716,406
Unrestricted	17,915,931	16,924,700	12,289,442	8,689,125	30,205,373	25,613,825
Total net assets	\$ 118,810,873	\$ 116,149,140	\$ 61,618,396	\$ 56,455,729	\$ 180,429,269	\$ 172,604,869



# CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

**Analysis of the City's Operations** – The following table provides a summary of the City's operations for the year ended September 30, 2006. Governmental activities increased the City's net assets by \$2,661,733. Revenues increased \$5,114,451. The largest increases were in electric franchise taxes (\$2,176,195) and investment income (\$1,504,924). Expenses increased \$2,918,880. Public works expenses increased \$1,424,642 due to an increase in street resurfacing expense from the capital improvement project funds. Net transfers decreased \$2,009,495 due mainly to the nonrecurring transfer out of capital assets to the business-type activities in the current year.

Business-type activities increased the City's net assets by \$5,162,667. The largest change is an increase of \$3,342,538 in charges for services revenue due to dry weather conditions and a 13.5% rate increase. Net transfers increased by \$2,009,495 due to the contribution of capital assets from the governmental capital improvement projects funds.

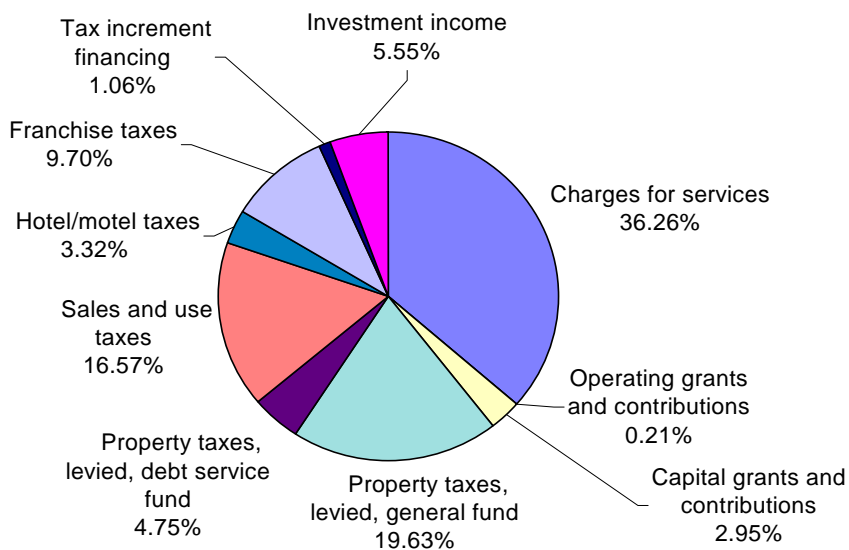
## CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 9,231,719	\$ 9,116,747	\$ 15,360,543	\$ 12,018,005	\$ 24,592,262	\$ 21,134,752
Operating grants and contributions	140,829	64,746			140,829	64,746
Capital grants and contributions	1,888,355	1,566,453	109,804	185,349	1,998,159	1,751,802
General revenues:						
Taxes:						
Property taxes, levied for general purposes	13,315,728	12,866,630			13,315,728	12,866,630
Property taxes, levied for debt service	3,223,213	3,496,761			3,223,213	3,496,761
Sales and use taxes	11,240,717	10,789,405			11,240,717	10,789,405
Hotel/motel taxes	2,249,499	1,965,693			2,249,499	1,965,693
Franchise taxes	6,578,109	4,401,914			6,578,109	4,401,914
Tax increment financing	718,150	753,444			718,150	753,444
Investment income	3,225,628	1,720,704	537,508	227,204	3,763,136	1,947,908
Other	45,001				45,001	
Total revenues	51,856,948	46,742,497	16,007,855	12,430,558	67,864,803	59,173,055
Expenses:						
General government	8,489,684	7,797,289			8,489,684	7,797,289
Public safety	15,934,442	15,536,770			15,934,442	15,536,770
Public works	11,940,111	10,497,625			11,940,111	10,497,625
Culture and recreation	11,292,821	11,041,720			11,292,821	11,041,720
Interest on long-term debt	1,353,926	1,240,816			1,353,926	1,240,816
Unallocated depreciation	166,626	144,510			166,626	144,510
Water and sewer			10,646,221	10,269,021	10,646,221	10,269,021
Public improvement district			216,572	222,959	216,572	222,959
Total expenses	49,177,610	46,258,730	10,862,793	10,491,980	60,040,403	56,750,710
Increases in net assets before transfers	2,679,338	483,767	5,145,062	1,938,578	7,824,400	2,422,345
Transfers	(17,605)	2,027,100	17,605	(2,027,100)		
Increase (decrease) in net assets	2,661,733	2,510,867	5,162,667	(88,522)	7,824,400	2,422,345
Net assets--beginning	116,149,140	113,638,273	56,455,729	56,544,251	172,604,869	170,182,524
Net assets--ending	\$ 118,810,873	\$ 116,149,140	\$ 61,618,396	\$ 56,455,729	\$ 180,429,269	\$ 172,604,869

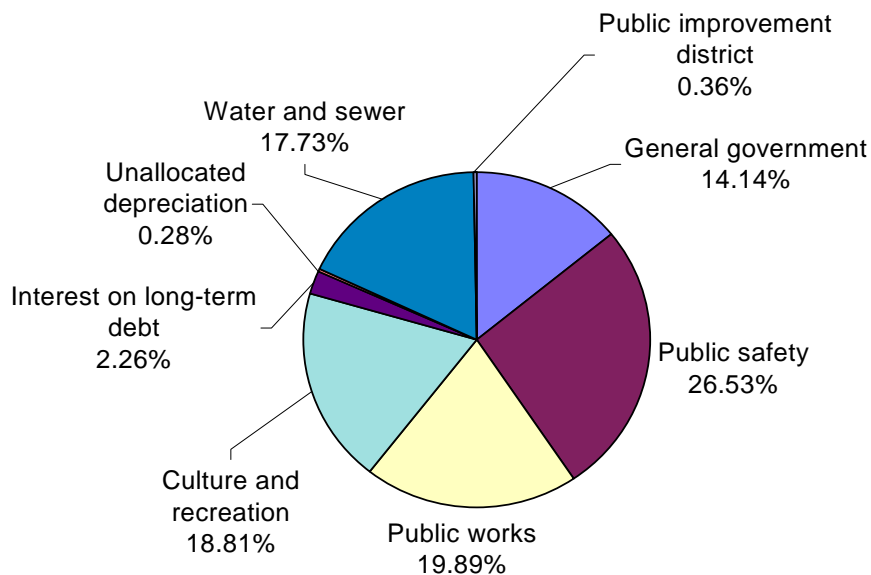
## CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

### Total Sources of Revenue



### Total Expenses by Activity



## CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

### *FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS*

**Governmental Funds** - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$37,701,337. Fifteen percent (15%) or \$5,717,336 of this total is reserved to indicate that it is not available for spending because it has already been committed (1) to pay for encumbrances \$3,229,815, (2) to provide for an advance to another fund \$200,000, (3) to pay for construction \$1,460,913, (4) to pay for debt service \$152,873, (5) to provide for inventory \$4,301, (6) to pay for law enforcement \$648,523, and (7) to provide for prepaid items \$20,911. Approximately 85% of the combined ending fund balance or \$31,984,001 constitutes unreserved fund balance. A portion (28%) of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

In the general fund, the City budgeted for an increase in fund balance of \$1,381,000. The budgeted increase was due to an improving economy and change in timing of payments for electric franchise fees. The actual fund balance increase for fiscal year 2006 was \$2,005,399. The unreserved, undesignated portion of general fund balance increased \$2,430,092. Actual expenditures were \$1,044,790 less than budgeted.

Landfill closure/postclosure fund balance increased \$1,238,077 due to payments received from the landfill operator for future closure costs. Non-bond capital projects fund balance decreased by \$2,857,628 due to a reduction in general fund transfers and various construction projects including street reconstruction and resurfacing. DART capital projects fund balance increased by \$37,464 due to investment income. The fund balance in the TIF No. 1 District capital projects fund decreased \$2,584,352 due to construction activity to develop the west side of the City.

**Proprietary Funds** - The City's enterprise fund is one component of proprietary funds. The enterprise fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the enterprise fund were \$12,302,563. The internal service funds (the other component of proprietary funds) report activities that provide supplies and services for the City's various functions. The City uses internal service funds to account for equipment services and the City's workers' compensation self-insurance program. Because both of these services primarily benefit governmental rather than business-type activities, they have been included with governmental activities in the government-wide financial statements.

**General Fund Budgetary Highlights** - During the year there was a \$431,300 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$267,600 supplemental appropriations for salary restructuring for public safety personnel.
- \$180,000 supplemental appropriations for parks maintenance to pay for increased utilities due to dry weather conditions and for increased fuel costs.

The increase was possible because of additional anticipated revenues. Those revenues include an increase in electric franchise fees due to a change in timing of payments (\$1,200,000), an upturn in sales tax collections (\$560,000), and an increase in building permit fees (\$240,000).

### **CAPITAL ASSETS**

The City's investment in capital assets for its government-wide activities as of September 30, 2006, amounts to \$165,231,161 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

#### Completed Projects

- Street reconstruction of North Josey Lane for approximately \$2,910,000.
- Construction of Pump Station #3 for about \$2,343,000.
- Utility improvements to water and sanitary sewer lines for about \$1,539,000.

#### Amounts Spent for Ongoing Projects

- Infrastructure improvements in TIF No. 1 District for about \$8,695,000.
- Street reconstruction of Longmeade Drive for approximately \$1,378,000.
- Utility improvements to water and sanitary sewer lines for about \$983,000.
- Widening of Valley View Lane for approximately \$621,000.
- Street reconstruction of Braemar Circle/Fruitland for about \$431,000.
- Construction of Fire Station #3 for about \$355,000.

# CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

## Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2006	2005	2006	2005	2006	2005
Land	\$ 39,502,644	\$ 39,275,402	\$ 603,364	\$ 603,364	\$ 40,106,008	\$ 39,878,766
Buildings	31,408,274	32,137,383	3,842,015	2,037,162	35,250,289	34,174,545
Equipment	8,214,173	7,335,627	855,987	488,438	9,070,160	7,824,065
Improvements	4,327,334	4,498,066	10,055	11,602	4,337,389	4,509,668
Infrastructure	28,518,156	27,796,254	34,337,111	33,982,433	62,855,267	61,778,687
Construction in progress	12,373,068	10,274,259	1,238,980	2,476,987	13,612,048	12,751,246
Total	<u>\$ 124,343,649</u>	<u>\$ 121,316,991</u>	<u>\$ 40,887,512</u>	<u>\$ 39,599,986</u>	<u>\$ 165,231,161</u>	<u>\$ 160,916,977</u>

Additional information on the City's capital assets can be found in the notes to basic financial statements (see Note 3.C).

## DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$19,149,505. Of this amount, \$4,539,505 comprises bonded debt backed by the full faith and credit of the government, \$11,865,000 comprises debt to be repaid from hotel/motel tax revenues, lease payments from the Dallas Stars, and backed by the full faith and credit of the government, and \$2,745,000 represents bonds secured solely by public improvement assessments and excess water and sewer revenues. The developer advances of \$8,663,872 represent a loan to the City for capital project costs payable only from Tax Increment Financing District No. 1.

## Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 4,539,505	\$ 7,591,081	\$	\$	\$ 4,539,505	\$ 7,591,081
Special revenue bonds	11,865,000	12,190,000			11,865,000	12,190,000
Assessment revenue bonds			2,745,000	3,245,000	2,745,000	3,245,000
Developer advances	8,663,872	7,265,145			8,663,872	7,265,145
Total	<u>\$ 25,068,377</u>	<u>\$ 27,046,226</u>	<u>\$ 2,745,000</u>	<u>\$ 3,245,000</u>	<u>\$ 27,813,377</u>	<u>\$ 30,291,226</u>

## CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis  
For the Fiscal Year Ended September 30, 2006  
(Unaudited)

The City maintains favorable ratings from bond rating agencies. The ratings are as follows:

	<u>Moody's</u> <u>Investors</u> <u>Service</u>	<u>Date</u> <u>Confirmed</u>	<u>Standard</u> <u>&amp; Poor's</u>	<u>Date</u> <u>Confirmed</u>
General obligation bonds	Aa3	July 20, 2006	AA	March 30, 2004
Special revenue bonds	Aa3	July 20, 2006	AA	March 30, 2004
Assessment revenue bonds	A2	July 20, 2006	AA-	October 8, 2004

Additional information on the City's long term-debt can be found in the notes to basic financial statements (see Note 3.E).

### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

In the fiscal year 2007 budget, general fund revenues are budgeted to increase by 5.0% from the fiscal year 2006 budget year with general property taxes making up about 34% of general fund budgeted revenues. Sales tax receipts are projected to grow 5.8% from the fiscal 2006 results. New revenues totalling \$1.1 million for photographic red-light enforcement have been added. Rates for the first 10,000 gallons of water usage were decreased 8% for fiscal year 2006.

General fund expenditures and transfers out are budgeted to increase 19.0% in fiscal year 2007. Increased costs include \$1.1 million for photographic red light enforcement, provision for a 3% across-the-board pay increase, a 3% merit increase, and health benefits. Additionally, \$4.3 million will be transferred to the non-bond capital improvements project fund to provide \$3.3 million for construction of Fire Station No. 3 and \$1 million for street maintenance.

### ***REQUEST FOR INFORMATION***

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Director of Finance, at P.O. Box 819010, Farmers Branch, Texas 75381-9010, or call (972) 247-3131, or e-mail [charles.cox@farmersbranch.info](mailto:charles.cox@farmersbranch.info).

STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash, cash equivalents, and investments	\$ 38,227,034	\$ 10,962,289	\$ 49,189,323	\$ 34,517
Receivables, net of allowance for doubtful accounts	6,493,006	4,129,046	10,622,052	287
Internal balances	13,121	(13,121)		
Inventory of materials and supplies	78,988		78,988	
Deposits	36,000		36,000	
Prepaid items	24,466	74,342	98,808	
Restricted assets:				
Investments		3,036,148	3,036,148	
Investment in joint venture		6,191,819	6,191,819	
Deferred charges	277,654	44,687	322,341	
Capital assets:				
Nondepreciable	51,875,712	1,842,344	53,718,056	
Depreciable, net of accumulated depreciation	72,467,937	39,045,168	111,513,105	
Capital assets, net of accumulated depreciation	124,343,649	40,887,512	165,231,161	
Total assets	169,493,918	65,312,722	234,806,640	34,804
LIABILITIES				
Accounts payable and accrued liabilities	2,769,932	480,980	3,250,912	
Accrued interest payable	1,686,287		1,686,287	
Customer deposits	384,913	130,430	515,343	
Unearned revenue	920,640		920,640	
Retainage payable	378,155	12,236	390,391	
Noncurrent liabilities:				
Revenue bonds payable - payable from restricted assets (due within one year)		520,000	520,000	
Accrued interest payable - payable from restricted assets (due within one year)		34,585	34,585	
Arbitrage liability		11,703	11,703	
Due within one year	4,289,305	41,758	4,331,063	
Due in more than one year	40,253,813	2,462,634	42,716,447	
Total liabilities	50,683,045	3,694,326	54,377,371	
NET ASSETS				
Invested in capital assets, net of related debt	98,657,412	44,402,198	143,059,610	
Restricted for:				
Debt service		2,481,563	2,481,563	
Capital projects	2,237,530	2,445,193	4,682,723	
Unrestricted	17,915,931	12,289,442	30,205,373	34,804
Total net assets	\$ 118,810,873	\$ 61,618,396	\$ 180,429,269	\$ 34,804

The accompanying notes are an integral part of the financial statements.

CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,489,684	\$ 958,561	\$ 3,082	\$
Public safety	15,934,442	3,906,555	98,025	256,500
Public works	11,940,111	3,536,009		1,331,390
Culture and recreation	11,292,821	830,594	39,722	300,465
Interest on long-term debt	1,353,926			
Unallocated depreciation	166,626			
Total governmental activities	49,177,610	9,231,719	140,829	1,888,355
Business-type activities:				
Water and sewer	10,646,221	15,360,543		
Public improvement district	216,572			109,804
Total business-type activities	10,862,793	15,360,543		109,804
Total primary government	\$ 60,040,403	\$ 24,592,262	\$ 140,829	\$ 1,998,159
Component unit:				
Industrial development corporation	\$ 2,109	\$	\$	\$
Total component unit	\$ 2,109	\$	\$	\$

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales and use taxes

Hotel/motel taxes

Franchise taxes

Tax increment financing

Investment income

Gain on sale of capital assets/insurance recoveries

Transfers

Total general revenues and transfers

Change in net assets

Net assets--beginning

Net assets--ending

The accompanying notes are an integral part of the financial statements.

Exhibit A-2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (7,528,041)	\$	\$ (7,528,041)	
(11,673,362)		(11,673,362)	
(7,072,712)		(7,072,712)	
(10,122,040)		(10,122,040)	
(1,353,926)		(1,353,926)	
(166,626)		(166,626)	
<u>(37,916,707)</u>		<u>(37,916,707)</u>	
	4,714,322	4,714,322	
	(106,768)	(106,768)	
	<u>4,607,554</u>	<u>4,607,554</u>	
<u>\$ (37,916,707)</u>	<u>\$ 4,607,554</u>	<u>\$ (33,309,153)</u>	
		\$ (1,357)	
		<u>\$ (1,357)</u>	
13,315,728		13,315,728	
3,223,213		3,223,213	
11,240,717		11,240,717	
2,249,499		2,249,499	
6,578,109		6,578,109	
718,150		718,150	
3,225,628	537,508	3,763,136	910
45,001		45,001	
(17,605)	17,605		
<u>40,578,440</u>	<u>555,113</u>	<u>41,133,553</u>	<u>910</u>
2,661,733	5,162,667	7,824,400	(447)
116,149,140	56,455,729	172,604,869	35,251
<u>\$ 118,810,873</u>	<u>\$ 61,618,396</u>	<u>\$ 180,429,269</u>	<u>\$ 34,804</u>



## CITY OF FARMERS BRANCH, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	DART Capital Projects	TIF No. 1 District Capital Projects
<b>ASSETS</b>					
Cash, cash equivalents, and investments	\$ 13,141,430	\$ 6,600,204	\$ 9,380,472	\$ 1,456,089	\$ 2,261,900
Receivables, net	5,358,174	77,028	54,011		6,564
Accrued interest and other	110,986	46,426	86,670	6,126	21,970
Due from other funds	255,000				
Inventories					
Advances to other funds			200,000		
Prepaid items	20,911				
Total assets	<u>\$ 18,886,501</u>	<u>\$ 6,723,658</u>	<u>\$ 9,721,153</u>	<u>\$ 1,462,215</u>	<u>\$ 2,290,434</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 2,124,347	\$	\$ 28,600	\$ 131,654	\$ 283,041
Customer deposits	20,773				
Due to other funds					
Deferred revenue	1,589,907			827,474	6,564
Advances due to other funds					
Retainage payable	17,773		89,201	39,866	231,315
Total liabilities	<u>3,752,800</u>		<u>117,801</u>	<u>998,994</u>	<u>520,920</u>
Fund balances:					
Reserved for encumbrances	699,931	12,500	1,307,848		807,981
Reserved for advances			200,000		
Reserved for construction				463,221	961,533
Reserved for debt service					
Reserved for inventory					
Reserved for law enforcement					
Reserved for prepaid items	20,911				
Unreserved, reported in:					
General fund:					
Designated for capital assets	876,141				
Undesignated	13,536,718				
Special revenue funds:					
Designated for landfill closure/postclosure		6,711,158			
Designated for special purposes					
Capital project funds:					
Designated for construction			8,095,504		
Undesignated					
Total fund balances	<u>15,133,701</u>	<u>6,723,658</u>	<u>9,603,352</u>	<u>463,221</u>	<u>1,769,514</u>
Total liabilities and fund balances	<u>\$ 18,886,501</u>	<u>\$ 6,723,658</u>	<u>\$ 9,721,153</u>	<u>\$ 1,462,215</u>	<u>\$ 2,290,434</u>

The accompanying notes are an integral part of the financial statements.

Exhibit B-1

Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,447,730	\$ 37,287,825
688,484	6,184,261
33,247	305,425
	255,000
4,301	4,301
	200,000
	20,911
<u>\$ 5,173,762</u>	<u>\$ 44,257,723</u>
<u><u>\$ 5,173,762</u></u>	<u><u>\$ 44,257,723</u></u>
\$ 88,747	\$ 2,656,389
364,140	384,913
255,000	255,000
257,984	2,681,929
200,000	200,000
	378,155
<u>1,165,871</u>	<u>6,556,386</u>
<u><u>1,165,871</u></u>	<u><u>6,556,386</u></u>
401,555	3,229,815
	200,000
36,159	1,460,913
152,873	152,873
4,301	4,301
648,523	648,523
	20,911
	876,141
	13,536,718
	6,711,158
2,626,856	2,626,856
168,988	8,264,492
(31,364)	(31,364)
<u>4,007,891</u>	<u>37,701,337</u>
<u><u>4,007,891</u></u>	<u><u>37,701,337</u></u>
\$ 5,173,762	\$ 44,257,723
<u><u>\$ 5,173,762</u></u>	<u><u>\$ 44,257,723</u></u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

---

Total Fund Balances - Total Governmental Funds: \$ 37,701,337

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet (net of internal service fund assets of \$199,810). 124,143,839

Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds. 1,761,289

Internal service funds are used by management to charge the cost of certain activities, such as fleet management and workers' compensation, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets (net of amount allocated to business-type activities of \$13,121). 529,288

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City issued new debt. The amount borrowed is received in the governmental funds and increases fund balance.

Bonds payable and developer advances	\$ (25,068,377)	
Less deferred loss from refunding and discount	78,350	
Less deferred charges	277,654	
Accrued interest	(1,686,287)	
Compensated absences (net of internal service fund \$138,568)	(5,796,318)	
Landfill liability	(13,129,902)	
Combined adjustment		(45,324,880)
Net assets of governmental activities		\$ 118,810,873

The accompanying notes are an integral part of the financial statements.

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CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	DART Capital Projects	TIF No. 1 District Capital Projects
REVENUES					
Property taxes	\$ 13,406,656	\$	\$	\$	\$
Sales and use taxes	11,240,717				
Hotel/motel taxes					
Franchise taxes	5,846,634				
Tax increment financing					713,118
Licenses and permits	901,032				
Charges for services	4,553,630	968,317			
Fines and forfeitures	2,520,119				
Investment income	970,781	283,919	530,035	37,464	134,358
Intergovernmental			289,811	1,219,013	
Miscellaneous	125,666		112,377		
Total revenues	39,565,235	1,252,236	932,223	1,256,477	847,476
EXPENDITURES					
Current:					
General government	8,401,617				
Public safety	15,777,257				
Public works	6,736,532	14,159			
Culture and recreation	9,376,904				
Debt service:					
Principal retirement					
Interest and fiscal agent charges					
Capital outlay			3,927,351	1,219,013	4,709,734
Total expenditures	40,292,310	14,159	3,927,351	1,219,013	4,709,734
Excess (deficiency) of revenues over (under) expenditures	(727,075)	1,238,077	(2,995,128)	37,464	(3,862,258)
OTHER FINANCING SOURCES (USES)					
Transfers in	2,612,451		137,500		
Transfers out	(137,500)				(120,821)
Developer advances					1,398,727
Sale of capital assets/insurance recoveries	257,523				
Total other financing sources (uses)	2,732,474		137,500		1,277,906
Net change in fund balances	2,005,399	1,238,077	(2,857,628)	37,464	(2,584,352)
Fund balances--beginning	13,128,302	5,485,581	12,460,980	425,757	4,353,866
Fund balances--ending	\$ 15,133,701	\$ 6,723,658	\$ 9,603,352	\$ 463,221	\$ 1,769,514

The accompanying notes are an integral part of the financial statements.

Exhibit B-3

Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,247,551	\$ 16,654,207
	11,240,717
2,249,499	2,249,499
	5,846,634
14,067	727,185
	901,032
	5,521,947
131,426	2,651,545
843,071	2,799,628
357,609	1,866,433
59,499	297,542
6,902,722	50,756,369
39,950	8,441,567
438,826	16,216,083
	6,750,691
1,229,863	10,606,767
3,320,000	3,320,000
863,056	863,056
101,735	9,957,833
5,993,430	56,155,997
909,292	(5,399,628)
2,145,057	4,895,008
(2,411,387)	(2,669,708)
	1,398,727
	257,523
(266,330)	3,881,550
642,962	(1,518,078)
3,364,929	39,219,415
\$ 4,007,891	\$ 37,701,337

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds \$ (1,518,078)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$10,511,155) exceeded depreciation (\$4,448,170) in the current period and the transfer of completed assets to the utility fund (\$2,242,905). 3,820,080

The net effect of the various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. (792,277)

Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the increase/(decrease) during the current year in deferred revenue that is earned, but not collected.

Property tax revenue	\$ (115,266)	
Franchise taxes	731,475	
Tax increment financing	(9,035)	
Ambulance revenue	25,416	
Net adjustment		632,590

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:

Developer advances	\$ (1,398,727)
--------------------	----------------

Repayments:

To bond holders	3,320,000	
Net adjustment		1,921,273

Some expenses reported in the government-wide statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	\$ (38,435)	
Difference in debt-related amortizations	(17,678)	
Accrued interest on long-term debt	(520,302)	
Landfill liability	(907,018)	
Net adjustment		(1,483,433)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management and workers' compensation, to individual funds. The net income of the internal service funds is reported with governmental activities (net of amount allocated to business-type activities of \$12,459). 81,578

Change in net assets of governmental activities: \$ 2,661,733

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	2006					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget - Positive (Negative)
<b>REVENUES</b>						
Property taxes	\$ 13,465,000	\$ 13,465,000	\$ 13,406,656	\$	\$ 13,406,656	\$ (58,344)
Sales and use tax	11,213,000	11,773,000	11,240,717		11,240,717	(532,283)
Franchise taxes	4,508,200	5,708,200	5,846,634		5,846,634	138,434
Licenses and permits	632,000	872,000	901,032		901,032	29,032
Charges for services	4,794,600	4,649,600	4,553,630		4,553,630	(95,970)
Fines and forfeitures	2,617,000	2,617,000	2,520,119		2,520,119	(96,881)
Investment income	718,000	878,000	970,781		970,781	92,781
Miscellaneous	138,000	138,000	125,666		125,666	(12,334)
Total revenues	38,085,800	40,100,800	39,565,235		39,565,235	(535,565)
<b>EXPENDITURES</b>						
Current:						
General government	8,829,300	8,954,200	8,401,617	47,948	8,449,565	504,635
Public safety	15,585,800	15,853,400	15,777,257	25,398	15,802,655	50,745
Public works	6,901,200	6,760,000	6,736,532	(184,782)	6,551,750	208,250
Culture and recreation	9,589,500	9,769,500	9,376,904	(16,067)	9,360,837	408,663
Total expenditures	40,905,800	41,337,100	40,292,310	(127,503)	40,164,807	1,172,293
Excess (deficiency) of revenues over (under) expenditures	(2,820,000)	(1,236,300)	(727,075)	127,503	(599,572)	636,728
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	2,533,300	2,533,300	2,612,451		2,612,451	79,151
Transfers out	(137,500)	(137,500)	(137,500)		(137,500)	
Sale of capital assets/insurance recoveries	200,000	221,500	257,523		257,523	36,023
Total other financing uses	2,595,800	2,617,300	2,732,474		2,732,474	115,174
Net change in fund balance	(224,200)	1,381,000	2,005,399	127,503	2,132,902	751,902
Fund balances--beginning	12,101,086	12,101,086	13,128,302	(1,027,216)	12,101,086	
Fund balances--ending	\$ 11,876,886	\$ 13,482,086	\$ 15,133,701	\$ (899,713)	\$ 14,233,988	\$ 751,902

**Explanation of differences:**

Expenditures of amounts encumbered at September 30, 2005	\$ 827,434
Reserved (GAAP) for encumbrances at September 30, 2006, but recognized as expenditures for budget purposes	(699,931)
Net decrease in fund balance - GAAP to budget	\$ 127,503



STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - LANDFILL CLOSURE/POSTCLOSURE FUND  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	2006					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget - Positive (Negative)
REVENUES						
Charges for services	\$ 850,000	\$ 850,000	\$ 968,317	\$	\$ 968,317	\$ 118,317
Investment income			283,919		283,919	283,919
Total revenues	850,000	850,000	1,252,236		1,252,236	402,236
EXPENDITURES						
Current:						
Public works						
Capital Outlay	1,305,000	1,305,000	14,159	(14,159)		1,305,000
Total expenditures	1,305,000	1,305,000	14,159	(14,159)		1,305,000
Excess (deficiency) of revenues over (under) expenditures	(455,000)	(455,000)	1,238,077	14,159	1,252,236	1,707,236
Fund balances--beginning	5,458,922	5,458,922	5,485,581	(26,659)	5,458,922	
Fund balances--ending	\$ 5,003,922	\$ 5,003,922	\$ 6,723,658	\$ (12,500)	\$ 6,711,158	\$ 1,707,236

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2006

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents, and investments	\$ 10,962,289	\$ 939,209
Receivables, net	2,535,093	3,320
Accrued interest and other	88,286	
Inventories and prepayments	74,342	78,242
Deposits		36,000
Total current assets	13,660,010	1,056,771
Noncurrent assets:		
Restricted investments	3,036,148	
Receivables, net	1,505,667	
Investment in joint venture	6,191,819	
Deferred charges	44,687	
Capital assets:		
Nondepreciable	1,842,344	8,170
Depreciable, net of accumulated depreciation	39,045,168	191,640
Total noncurrent assets	51,665,833	199,810
Total assets	65,325,843	1,256,581
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	480,980	113,543
Retainage payable	12,236	
Claims payable		195,321
Compensated absences	41,758	24,899
Deposits	130,430	
Total current liabilities	665,404	333,763
Noncurrent liabilities:		
Revenue bonds payable - payable from restricted assets (due within one year)	520,000	
Accrued interest payable - payable from restricted assets (due within one year)	34,585	
Arbitrage liability	11,703	
Claims payable		292,982
Compensated absences	274,536	113,669
Long-term debt due in more than one year	2,188,098	
Total noncurrent liabilities	3,028,922	406,651
Total liabilities	3,694,326	740,414
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	44,402,198	199,810
Restricted for:		
Debt service	2,481,563	
Capital projects	2,445,193	
Unrestricted	12,302,563	316,357
Total net assets	\$ 61,631,517	\$ 516,167
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund	(13,121)	
Net assets of business-type activities	\$ 61,618,396	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
Operating revenues		
Charges for services	\$ 15,352,500	\$ 1,954,325
Contributions and miscellaneous	8,043	562,361
Total operating revenues	15,360,543	2,516,686
Operating expenses		
Personal services	1,601,470	720,062
Materials and supplies	145,945	977,814
Maintenance and utilities	960,753	193,675
Purchase of water	4,356,520	
Sewage treatment	1,787,319	
Insurance claims and expenses		509,488
Depreciation	1,841,489	21,610
Total operating expenses	10,693,496	2,422,649
Operating income	4,667,047	94,037
Nonoperating revenues (expenses)		
Investment income	537,508	
Assessment interest income	109,804	
Loss of the joint venture	(76,221)	
Interest expense and fiscal agent charges	(105,535)	
Total nonoperating revenue (expenses)	465,556	
Income before transfers and capital contributions	5,132,603	94,037
Capital contributions	2,242,905	
Transfers out	(2,225,300)	
Change in net assets	5,150,208	94,037
Net assets--beginning	56,481,309	422,130
Net assets--ending	\$ 61,631,517	\$ 516,167
Reconciliation to government-wide statement of net assets:		
Change in net assets	\$ 5,150,208	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund	12,459	
Change in net assets of business-type activities	\$ 5,162,667	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 15,267,559	\$
Receipts from interfund services provided		2,533,366
Payments to suppliers	(7,161,347)	(1,149,983)
Payments to employees	(1,700,460)	(707,840)
Payments for loss claims		(391,205)
Payments for interfund services	(343,583)	
Net cash provided by operating activities	6,062,169	284,338
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(2,225,300)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Special assessments	307,333	
Interest on special assessments	109,804	
Acquisition and construction of capital assets	(932,025)	(20,465)
Proceeds from sale of capital assets	45,914	
Principal paid on revenue bond maturities	(500,000)	
Interest paid on revenue bonds	(91,804)	
Net cash used by capital and related financing activities	(1,060,778)	(20,465)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, restricted	(3,471,671)	
Investment income	520,809	
Net cash used by investing activities	(2,955,394)	
Net increase in cash and cash equivalents	(179,303)	263,873
Cash and cash equivalents - beginning of year	179,303	675,336
Cash and cash equivalents - end of year	\$	\$ 939,209
Cash and cash equivalents - end of year	\$	\$ 939,209
Investments	10,962,289	
Restricted investments	3,036,148	
Cash, cash equivalents, and investments - end of year	\$ 13,998,437	\$ 939,209
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions from governmental funds	\$ 2,242,905	
Loss of the joint venture	(76,221)	
Capital contributions from governmental funds/Loss of the joint venture	\$ 2,166,684	

The accompanying notes are an integral part of the financial statements.

(continued)

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,667,047	\$ 94,037
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,841,489	21,610
Change in assets and liabilities:		
Increase in receivables	(100,697)	(3,320)
Decrease in inventory of materials and supplies		17,193
Decrease in deposits		20,000
(Increase) decrease in prepaid items	21,777	(3,555)
Decrease in accounts payable	(173,737)	
Increase in accrued liabilities		6,964
Decrease in retainage payable	(63,096)	
Increase in claims payable		118,283
Increase in deposits payable	7,713	
Increase (decrease) in accrued compensated absences	(138,327)	13,126
Net cash provided by operating activities	<u>\$ 6,062,169</u>	<u>\$ 284,338</u>

The accompanying notes are an integral part of the financial statements.

(concluded)

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Farmers Branch, Texas (the "City") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

**A. Reporting Entity**

The City is a municipal corporation governed by an elected mayor and a five-member council. The City was incorporated in 1946 under the Constitution of the State of Texas (Home Rule Amendment). As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Because of the closeness of their relationship with the primary government (the City), some component units are blended as though they are part of the primary government; most component units are discretely presented. The City has no blended component units; however, discretely presented component units and the joint venture, which all have a September 30 year-end, are as follows:

**Discretely Presented Component Units**

The Farmers Branch Housing Finance Corporation ("Housing Corporation") was created in 1993 for the special purpose of providing a financing mechanism for the development and ownership of residential and multi-family housing initiatives. The members of the Housing Corporation Board are appointed by the City Council. Thus, the Housing Corporation is a part of the City's reporting entity. The Housing Corporation has placed all mortgage loans and pledged related collateral and credit enhancements with a trustee in an irrevocable trust. The conduit bonds, which do not constitute indebtedness of the City nor the Housing Corporation, are secured solely by the revenues received from the organizations on whose behalf they were issued and the City assumes no responsibility for the operating expenses of the Housing Corporation. Accordingly, the conduit bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2006, there were two series of Single Family Mortgage Revenue Bonds outstanding, Series 1996 and Series 1999, with principal amounts payable of \$155,000 and \$134,195, respectively. The Housing Corporation had no revenues or expenditures and has no assets, liabilities or fund balance as of September 30, 2006; therefore, no financial statements have been presented.

The Farmers Branch Industrial Development Corporation ("Development Corporation") was created for the special purpose of promoting and developing commercial, industrial, and manufacturing enterprises and encouraging employment within the boundaries of the City. The members of the Development Corporation Board are appointed by the City Council. The Development Corporation's financial activities are discretely presented in the City's financial statements as a governmental fund. The Development Corporation is authorized to issue industrial development revenue bonds after approval by the City Council. The Development Corporation has issued conduit bonds that have fully matured in previous years. Complete financial statements of the Development Corporation can be obtained from the City's finance department.

**Joint Venture**

The North Dallas County Water Supply Corporation ("NDCWSC") is a joint venture between the City and the Town of Addison (the "Town") to design, construct, operate, and maintain a joint sanitary sewer interceptor and conventional sewer lines. The NDCWSC, a public instrumentality and nonprofit water supply corporation, was created for that purpose. Upon dissolution of the NDCWSC, the net assets will be shared by the City and Town in the proportions stated in an inter-local agreement. The affairs of the NDCWSC are managed by a six-person board of directors appointed by the governing bodies of the City and the Town.

The City and the Town are each obligated to fund construction of the sanitary sewer interceptor in the proportions stated in the inter-local agreement. The City has financed its portion of construction funds through the issuance and sale of assessment revenue bonds and a transfer from previously issued sewer bonds. The City's net investment and its share of the operating results of the NDCWSC are reported in the City's enterprise fund. The City's equity interest in the NDCWSC was \$6,191,819 at September 30, 2006. Complete financial statements for the NDCWSC can be obtained from the City's finance department.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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**B. Basic Financial Statements**

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property, franchise, sales and hotel occupancy taxes and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The *landfill closure/postclosure fund* is used to account for future landfill costs.

The *non-bond capital projects fund* is used to account for the acquisition and construction of major capital facilities (other than those financed by general obligation bonds or proprietary fund types).

The *DART capital projects fund* accounts for the construction and financing of transit related improvements and is funded by the Dallas Area Rapid Transit Local Assistance Program.

The *TIF No. 1 District capital projects fund* accounts for infrastructure construction in the Mercer Crossing tax increment financing district and is funded from developer contributions and advances and property tax payments.

The City reports the following major proprietary fund:

The *enterprise fund* is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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The City reports the following internal service funds:

The *internal service funds* are used to account for equipment services and the City's workers' compensation self-insurance program for the departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources as they are needed.

**D. Assets, Liabilities, and Net Assets or Equity**

**1) Deposits and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

To maximize investment opportunities, all funds (excluding the debt service fund and the internal service funds) participate in a pooling of cash and investment income. Each fund may liquidate its equity in the pool on demand. Investments are recorded at fair value, except for investments with maturity of one year or less from date of purchase, which are stated at amortized cost. Fair value is based on quoted market prices.

**2) Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5% of outstanding property taxes at September 30, 2006.

The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year.



**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

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**3) Inventories and Prepaid Items**

Inventories are stated at the lower of average cost or market for the internal service funds and at average cost for the special revenue funds. Inventories are recorded as assets when purchased and charged to operations when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4) Capital Assets**

Capital assets, which include land, buildings, equipment, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Insurance recoveries of \$45,001 were received for the year ended September 30, 2006. They are included as an other financing source in the general fund. A capitalization threshold of \$5,000 is used for all capital assets. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	30 - 50	years
Equipment	5 - 30	years
Improvements	20	years
Infrastructure	15 - 62.5	years

**5) Compensated Absences**

The City's employees earn vacation leave (up to a maximum of 192 hours per year) based on days employed. Upon retirement or termination, payment of accumulated vacation may not exceed that which can be accumulated within two years. Unused sick leave, based on days employed, may be accumulated up to certain limits. Upon retirement or termination, a maximum of 720 hours of sick pay is paid for 40 hours per week employees or 1,080 hours for 56 hours per week employees hired before October 1, 1992. Upon retirement or termination, employees hired on October 1, 1992 or later with five years or less of service will be paid a maximum of 120 hours of sick pay for 40 hours per week employees or 180 hours for 56 hours per week employees. Upon retirement or termination, employees hired on October 1, 1992 or later with more than five years of service will be paid a maximum of 240 hours of sick pay for 40 hours per week employees or 360 hours for 56 hours per week employees.

**6) Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

As of September 30, 2006, the City reserved a portion of general fund balance for encumbrances and prepaid items, a portion of special revenue fund balance for encumbrances, inventory, and law enforcement, the entire debt service fund balance for debt service, and a portion of the capital projects fund balance for encumbrances, advances, and construction.

The City designated a portion of the general fund's unreserved fund balance for capital assets. Designations for special purposes of the special revenue fund unreserved fund balance are segregated so as to be utilized in accordance with state law or other restricted purpose as applied to hotel/motel tax revenue, landfill closure, grants, and contributions that are designated to finance particular functions or activities of the City. Designations of the capital projects fund balance are not legally required segregations, but are segregated for construction.

**2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

*Budget Policy* – By August 1 of each fiscal year, the City Manager submits an annual budget to the City Council. Annual operating budgets are prepared on a budgetary basis for all governmental funds, whereby year-end encumbrances are recognized as expenditures in the current year budget. Budgetary data for the capital projects funds has not been presented in these statements as these funds are budgeted over the life of the respective project and not on an annual basis. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year on October 1. Once the budget is approved, the City Manager is authorized to transfer unencumbered appropriations within each departmental division's summary budget category as itemized in the adopted budget. City Council approval is necessary for transfers of unencumbered appropriations between departments, functions and funds. Special revenue funds are budgeted at the function level.

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

*Budgetary Data* – Budget amounts presented in the general fund's and landfill closure/postclosure fund's "Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual" reflect the original budget and the amended budget (which has been adjusted for legally authorized revisions to the annual budget during the year). Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

During the year certain budget amendments were required. Budgeted general fund revenues were increased by a total of \$2,015,000. Electric franchise taxes were increased by \$1,200,000 due to a change in the payment method by TXU Corporation. Sales tax revenue was increased \$560,000 as sales exceeded original expectations. Licenses and permits was increased due to an increase in building permits. Budgeted general fund expenditures increased \$431,300 from the original budget. The main reasons for this increase were a salary restructure for public safety personnel and increased park maintenance costs for water and electricity.

**B. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2006, expenditures in the general fund's public safety fire departments exceeded appropriations by \$9,836. This excess over appropriations was due to the purchase of a fire engine and ambulance. The budget for large capital asset purchases is allocated over several years. This creates a negative variance in the year of purchase. Available fund balance was sufficient to provide for the excess expenditures.

**C. Deficit Fund Equity**

The deficit of \$31,364 in the TIF No. 2 District capital projects fund is due to the use of the \$200,000 advance from the non-bond capital projects fund for construction prior to receipt of tax increment financing revenue.

**3. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At year-end, the carrying amount of the City's deposits was (\$1,643,586) and the bank balance was \$112,526. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name. At year-end, the carrying amount of the Development Corporation's deposits was \$34,517 and the bank balance was \$34,517. The bank balance was completely covered by federal depository insurance.

State statutes, City bond ordinances, and City resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of Texas and its agencies and instrumentalities, obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating, insured or collateralized certificates of deposit, fully collateralized repurchase agreements, and government pools.

The City elects to exclude investments with maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. As of September 30, 2006 the City had the following investments:

Description	Reported Amount	Fair Value	Weighted Average Maturity (in days)
Treasury Notes	\$ 9,922,381	\$ 9,920,155	199
Fannie Mae Notes	13,985,027	13,985,927	238
Freddie Mac Notes	11,335,380	11,323,948	167
Federal Home Loan Bank Notes	10,589,495	10,589,495	551
Farmer Mac	2,170,508	2,170,508	869
Federal Farm Credit Bank Notes	3,982,520	3,982,520	100
Repurchase Agreements	1,883,746	1,883,746	1
Total Investments	<u>\$ 53,869,057</u>	<u>\$ 53,856,299</u>	
Portfolio Weighted Average Maturity			284

*Interest Rate Risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to eighteen months (548 days).

*Credit Risk.* The City's investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's except for one Fannie Mae note with a reported value of \$3,462,590 that was rated Aa2 by Moody's Investors Service and AA- by Standard and Poor's.

*Concentration of Credit Risk.* The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments. The City's portfolio is 25.74% invested in Fannie Mae notes, 19.70% invested in Federal Home Loan Bank, 20.86% invested in Freddie Mac notes, and 7.43% invested in Federal Farm Credit Bank notes as of September 30, 2006. The remainder (26.27%) of the City's investments is invested in U.S. government issues or U.S. guaranteed obligations.

Cash and cash equivalents are reported at cost. Total deposits and investments are presented on the Statement of Net Assets as:

	Primary Government	Component Unit	Reporting Entity
Cash, cash equivalents, and investments	\$ 49,189,323	\$ 34,517	\$ 49,223,840
Restricted assets:			
Investments	3,036,148		3,036,148
Total cash, cash equivalents, and investments	\$ 52,225,471	\$ 34,517	\$ 52,259,988

**B. Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	TIF No. 1 District Capital Projects	Enterprise	Nonmajor Governmental	Total
Receivables:							
Property tax	\$ 813,199	\$	\$	\$	\$	\$ 247,471	\$ 1,060,670
Other taxes	2,236,978					188,620	2,425,598
Accounts	3,834,130	77,028	54,011		1,019,697	259,694	5,244,560
Unbilled accounts					1,152,473		1,152,473
Assessments			13,518	6,564	1,904,144	5,073	1,929,299
Gross receivables	6,884,307	77,028	67,529	6,564	4,076,314	700,858	11,812,600
Less: Allowance for uncollectibles	(1,526,133)		(13,518)		(35,554)	(12,374)	(1,587,579)
Net total receivables	\$ 5,358,174	\$ 77,028	\$ 54,011	\$ 6,564	\$ 4,040,760	\$ 688,484	\$ 10,225,021

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2006 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and right-of-way	\$ 39,275,402	\$ 158,098	\$	\$ 39,502,644
Construction in progress	10,274,259	7,528,449		12,373,068
Total capital assets, not being depreciated	49,549,661	7,686,547		51,875,712
Capital assets, being depreciated				
Improvements	7,327,900	160,831		7,502,777
Buildings	37,103,442	35,565	(6,020)	37,132,987
Equipment	17,930,142	2,241,002	(1,145,450)	19,252,174
Infrastructure	77,419,654	839,695	(1,393,114)	79,713,658
Total capital assets, being depreciated	139,781,138	3,277,093	(2,544,584)	143,601,596
Less accumulated depreciation for:				
Improvements	(2,829,834)	(345,609)		(3,175,443)
Buildings	(4,966,059)	(758,654)		(5,724,713)
Equipment	(10,594,515)	(1,454,222)	981,094	(11,038,001)
Infrastructure	(49,623,400)	(1,911,295)	339,193	(51,195,502)
Total accumulated depreciation	(68,013,808)	(4,469,780)	1,320,287	(71,133,659)
Total capital assets, being depreciated, net	71,767,330	(1,192,687)	(1,224,297)	72,467,937
Governmental activities capital assets, net	\$ 121,316,991	\$ 6,493,860	\$ (1,224,297)	\$ 124,343,649
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land and right-of-way	\$ 603,364	\$	\$	\$ 603,364
Construction in progress	2,476,987	775,554		1,238,980
Total capital assets, not being depreciated	3,080,351	775,554		1,842,344
Capital assets, being depreciated:				
Improvements	23,206			23,206
Buildings	6,753,769			8,790,050
Equipment	2,212,247	156,471	(188,871)	2,517,262
Infrastructure	66,397,588		(272,190)	68,037,810
Total capital assets, being depreciated	75,386,810	156,471	(461,061)	79,368,328
Less accumulated depreciation for:				
Improvements	(11,604)	(1,547)		(13,151)
Buildings	(4,716,607)	(231,428)		(4,948,035)
Equipment	(1,723,809)	(96,695)	188,871	(1,661,275)
Infrastructure	(32,415,155)	(1,511,819)	226,275	(33,700,699)
Total accumulated depreciation	(38,867,175)	(1,841,489)	415,146	(40,323,160)
Total capital assets, being depreciated, net	36,519,635	(1,685,018)	(45,915)	39,045,168
Business-type activities capital assets, net	\$ 39,599,986	\$ (909,464)	\$ (45,915)	\$ 40,887,512

**NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006**

The preceding schedule includes internal service assets in the governmental activities. Internal service fund depreciation expense is allocated to the primary government based on each function's or program's usage of its services.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 109,696
Public safety	753,080
Public works, which includes the depreciation of general infrastructure assets	2,275,095
Culture and recreation	1,190,307
Unallocated	141,602
Total depreciation expense - governmental activities	<u>\$ 4,469,780</u>
Business-type activities:	
Water and sewer	\$ 1,806,673
Public improvement district	34,816
Total depreciation expense business-type activities	<u>\$ 1,841,489</u>

Construction Commitments

The City has entered into several construction contracts during the fiscal year, which include street improvements, replacement of water mains, and the construction of municipal facilities. As of September 30, 2006, the City had outstanding construction contracts totaling approximately \$3,977,053 that will be financed from operating funds.

	<u>Committed</u>
Non-bond projects fund	\$ 1,307,848
DART fund	847,275
Water bond fund	36,159
Enterprise fund	897,961
TIF No. 1 District capital projects fund	807,981
TIF No. 2 District capital projects fund	79,829
Total	<u>\$ 3,977,053</u>

**D. Interfund Receivables, Payables, and Transfers**

Interfund balances at September 30, 2006 consisted of the following:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund - Grant fund	\$ 255,000

Purpose of Due To / From Other Funds

Due to/from transactions are used for short-term interfund loans. The outstanding balance is the result of a time lag between the date the grant revenue was received and the date the qualifying grant expenditure was made.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Advances from / to other funds:

Receivable Fund	Payable Fund	Amount
Non-bond capital projects fund	Nonmajor governmental fund - TIF No. 2 District fund	\$ 200,000

Purpose of Advances

Advances are used for long-term interfund loans. The advance listed above is to finance the start of construction projects in the TIF No. 2 District until adequate tax revenues have been received.

Government interfund transfers during the year ended September 30, 2006 were as follows:

TRANSFERS TO	TRANSFERS FROM			
	Major Funds			
	TIF No. 1			Nonmajor
	General	District	Enterprise	Governmental
	Fund	Capital Projects	Fund	Funds
		Fund		
PRIMARY GOVERNMENT:				
Governmental activities:				
Major funds:				
General fund	\$ 2,612,451	\$ 137,500	\$ 120,821	\$
Non-bond capital projects fund	137,500			
Total major funds	2,749,951	137,500	120,821	
Nonmajor governmental funds	2,145,057			2,411,387
Total governmental activities	4,895,008	137,500	120,821	2,411,387
Business-type activities:				
Enterprise fund			2,225,300	
Total primary government	\$ 4,895,008	\$ 137,500	\$ 120,821	\$ 2,225,300
				\$ 2,411,387

Eliminations

Interfund receivables, payables, and transfers are reported in the governmental activities and business-type activities fund financial statements. In the entity-wide statements, interfund receivables, payables, and transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) for the enterprise fund to the general fund for a payment in lieu of taxes.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

**E. Long-Term Debt and Obligations**

Long-term liability activity for the year ended September 30, 2006 is summarized as follows:

	Balance at Beginning of Year	Increase	Decrease	Balance at End of Year	Due Within One Year
<u>Governmental activities</u>					
General obligation bonds	\$ 7,591,081	\$	\$ (3,051,576)	\$ 4,539,505	\$ 3,099,505
Special revenue bonds	12,190,000		(325,000)	11,865,000	515,000
Less deferred amounts:					
For issuance discounts	(24,033)		2,009	(22,024)	(2,009)
On refunding	(81,461)		25,135	(56,326)	(25,135)
Total bonds payable	19,675,587		(3,349,432)	16,326,155	3,587,361
Developer advances	7,265,145	1,398,727		8,663,872	
Compensated absences	5,883,325	466,114	(414,553)	5,934,886	506,623
Claims payable	370,020	400,949	(282,666)	488,303	195,321
Landfill closure and postclosure care costs	12,222,884	907,018		13,129,902	
Governmental activities long-term debt	\$ 45,416,961	\$ 3,172,808	\$ (4,046,651)	\$ 44,543,118	\$ 4,289,305
<u>Business-type activities</u>					
Assessment revenue bonds	\$ 3,245,000	\$	\$ (500,000)	\$ 2,745,000	\$ 520,000
Less deferred amounts:					
For issuance discounts	(508)		100	(408)	(100)
On refunding	(45,431)		8,937	(36,494)	(8,937)
Total bonds payable	3,199,061		(490,963)	2,708,098	510,963
Arbitrage liability	9,294	2,409		11,703	
Compensated absences	454,621	18,240	(156,567)	316,294	41,758
Business-type activities long-term debt	\$ 3,662,976	\$ 20,649	\$ (647,530)	\$ 3,036,095	\$ 552,721
Total	\$ 49,079,937	\$ 3,193,457	\$ (4,694,181)	\$ 47,579,213	\$ 4,842,026

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, claims payable of \$195,321 and \$138,568 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims payable and compensated absences are generally liquidated by the general fund and hotel/motel fund.

The developer advances will be liquidated from the TIF No. 1 District capital projects fund. The landfill closure and postclosure care costs will be liquidated from the landfill closure/postclosure fund.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Bonds payable at September 30, 2006 are comprised of the following individual issues:

	Interest Rate (%)	Issue Date	Maturity Date	Amount Outstanding
<u>Governmental activities</u>				
General obligation bonds:				
2002 Refunding	3.00 - 3.70	12/16/2002	8/15/2012	\$ 1,630,000
2003 Refunding	2.25 - 3.25	8/4/2003	8/15/2007	2,909,505
Total general obligation bonds				<u>4,539,505</u>
Special revenue bonds:				
1999 Hotel occupancy tax	4.65 - 6.00	7/15/1999	8/15/2014	3,025,000
2004 Combination tax and revenue	2.65 - 5.80	4/5/2004	11/1/2029	7,895,000
2004A Combination tax and revenue	2.50 - 4.60	4/5/2004	11/1/2008	945,000
Total special revenue bonds				<u>11,865,000</u>
Total governmental activities				<u>\$ 16,404,505</u>
<u>Business-type activities</u>				
Assessment revenue bonds:				
2003 Public improvement district refunding	2.50 - 3.50	12/16/2002	11/1/2010	\$ 2,745,000
Total business-type activities				<u>\$ 2,745,000</u>

The City currently has \$27,985,000 of authorized, but unissued, general obligation bonds.

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2006 are as follows:

Governmental activities

Year Ending September 30	<u>General Obligation Bonds</u>			<u>Special Revenue Bonds</u>		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 3,099,505	\$ 95,302	\$ 3,194,807	\$ 515,000	\$ 616,984	\$ 1,131,984
2008	415,000	46,158	461,158	540,000	596,225	1,136,225
2009	420,000	33,707	453,707	565,000	573,303	1,138,303
2010	195,000	21,108	216,108	590,000	548,400	1,138,400
2011	200,000	14,770	214,770	615,000	520,774	1,135,774
2012-2016	210,000	7,770	217,770	2,620,000	2,131,021	4,751,021
2017-2021				1,755,000	1,583,865	3,338,865
2022-2026				2,330,000	1,010,445	3,340,445
2027-2030				2,335,000	271,675	2,606,675
Total	\$ 4,539,505	\$ 218,815	\$ 4,758,320	\$ 11,865,000	\$ 7,852,692	\$ 19,717,692



NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Business-type activities

Year Ending September 30	<u>Assessment Revenue Bond</u>		
	Principal	Interest	Total
2007	\$ 520,000	\$ 76,505	\$ 596,505
2008	530,000	62,717	592,717
2009	550,000	46,905	596,905
2010	565,000	29,340	594,340
2011	580,000	10,150	590,150
Total	<u>\$ 2,745,000</u>	<u>\$ 225,617</u>	<u>\$ 2,970,617</u>

General Obligation Bonds - The City of Farmers Branch issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$13,520,000. General obligation bonds are direct obligations and pledge the full faith and credit of the City of Farmers Branch. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year.

Special Revenue Bonds - The City of Farmers Branch has issued special revenue bonds to provide funds for the acquisition and construction of a community ice-skating and conference facility including public parking areas. The original amount of special revenue bonds issued in prior years was \$13,665,000. Special revenue bonds are payable from the hotel occupancy tax and lease payments from the Dallas Stars with any deficiency to be paid from ad valorem taxes.

Assessment Revenue Refunding Bonds - The Assessment Revenue Refunding Bonds are payable solely from pledged revenues consisting of a special assessment levied on property within the City's Public Improvement District Number One and to the extent that assessments or other funds are not sufficient, the City must provide sufficient water and sewer revenues (including curing any deficiencies in the reserve fund). Pledged revenues are to be deposited in an interest and sinking fund for payment of principal and interest on the bonds. In addition, a reserve fund is required to be maintained in an amount equal to the average annual principal and interest requirement and shall be used to retire the last of the bonds. The balance of the reserve fund at September 30, 2006 was \$590,150. Any surplus assessments are to be deposited into the interest and sinking fund. At September 30, 2006, the City's interest and sinking fund requirements totaled \$511,252. Assets restricted for sinking fund purposes, including surplus assessments, at September 30, 2006 totaled \$4,541,815. The assessments cannot be used for any other purpose until the certificates are paid in full. To the extent assessments or other funds are not sufficient, the City must provide sufficient water and sewer revenues to pay the assessment revenue bonds (including curing any deficiencies in the reserve fund). Assessments, including interest, received and deposited during the year totaled \$417,137. A portion of the assessments receivable is considered long-term since it will not be collected within one year. The City is in compliance with all significant financial requirements as of September 30, 2006.

At September 30, 2006, the restricted assets and restriction for bond retirement are as follows:

	<u>Assessment Revenue Bonds</u>
Restricted cash and investments	\$ 3,036,148
Less: Current bonds payable	(520,000)
Less: Accrued interest payable	(34,585)
Restricted for bond retirement	<u>\$ 2,481,563</u>

Defeased Bonds Outstanding - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2006, \$7,850,000 of bonds outstanding are considered defeased.

Developer Advances - The City entered into a development agreement, whereby American Realty Trust, Inc., Income Opportunity Realty Investors, Inc., and Transcontinental Realty Investors, Inc. agreed to advance funds to the City for project construction costs in Tax Increment Financing District No. 1 ("TIF No. 1"). The funds advanced and interest payable may be reimbursed only from the TIF No. 1 fund to the extent

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

such funds are on deposit in the fund. Interest accrues beginning from the date the funds are received by the City. The interest rate is the lower of six percent or the developer's actual cost of funds. This interest is calculated on a simple straight-line basis semiannually on the unpaid balance plus accrued interest to date.

*Landfill Closure and Postclosure Costs* – The City owns a sanitary landfill site located in the City of Lewisville, Texas. Beginning October 1, 1998, the City entered into a ten-year renewable contract with Allied Waste North America, Inc. ("Allied Waste") for the operation and management of the landfill. During the term of this agreement, Allied Waste will be responsible for contributions to a City-maintained closure/postclosure fund in order to provide resources for these costs.

The landfill operates on a "cell" basis and state and federal laws require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The site capacity of 24.5 million cubic yards will be reached in approximately 27 years. The City recognizes a portion of the final closure and post-closure care liability in each operating period even though actual final payout will not occur until the landfill is completely closed.

The amount recognized as a liability each year to date is based on the landfill capacity used as of the balance sheet date. As of September 30, 2006, the City had incurred a liability of \$13,129,902, which represents the amount of costs estimated to date based on 64% of landfill capacity used to date. The remaining estimated liability for these costs is \$7,517,248, which will be recognized as the remaining capacity is used. Additionally, the City has designated \$6,711,158 of special revenue fund balance for future landfill closure costs. The estimated cost of closure and post-closure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

#### F. Segment Information

The City issued assessment revenue bonds to finance sanitary sewer improvements within Public Improvement District Number One. Both the water and sewer and public improvement district segments are accounted for in a single fund (i.e. the enterprise fund). However, investors in the assessment revenue bonds rely on the revenue generated by the assessments for repayment. Summary financial information for the public improvement district segment is presented below:

CONDENSED STATEMENT OF NET ASSETS	
<b>ASSETS</b>	
Current assets	\$ 419,526
Restricted investments	3,036,148
Noncurrent assets	1,505,667
Investment in joint venture, net of accumulated depreciation	6,191,819
Deferred charges	44,687
Capital assets, net of accumulated depreciation	1,061,884
Total assets	<u>12,259,731</u>
<b>LIABILITIES</b>	
Noncurrent liabilities:	
Payable from restricted assets:	
Revenue bonds payable (due within one year)	520,000
Accrued interest payable (due within one year)	34,585
Revenue bonds and other payables (due in more than one year)	2,199,801
Total liabilities	<u>2,754,386</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	4,578,589
Restricted	4,926,756
Total net assets	<u>\$ 9,505,345</u>

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

CONDENSED STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

Depreciation	\$ (34,816)
Operating loss	(34,816)
Nonoperating revenues (expenses)	
Investment income	126,319
Assessment interest income	109,804
Loss of the joint venture	(76,221)
Interest expense and fiscal agent charges	(105,535)
Change in net assets	19,551
Net assets--beginning	9,485,794
Net assets--ending	\$ 9,505,345

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Capital and related financing activities	\$ (174,667)
Investing activities	122,980
Net decrease	(51,687)
Cash and cash equivalents - beginning of year	51,687
Cash and cash equivalents - end of year	\$ -

G. Other Information

1) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. The City has established a workers' compensation fund (an internal service fund) to account for workers' compensation uninsured risks of loss. Under this program, the workers' compensation fund provides coverage for up to a maximum of \$350,000 for each workers' compensation occurrence claim.

The costs associated with this self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues of the workers' compensation fund and operating expenditures (expenses) of the other funds. Claims payable include provisions for claims reported and claims incurred, but not reported. The provision for reported claims is computed by the City's third party administrator based upon standard actuarial principles. The provision for claims incurred, but not yet reported, is estimated based on the City's experience and an actuarial study that was performed during fiscal year 2005. State law provides that the City is relieved of liability if a notice of employee injury has not been received within 30 days of the date on which the injury occurs.

At September 30, 2006, the amount of workers' compensation liabilities was \$488,303. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses (ALAE), which are primarily legal expenses. Changes in the reported liability since October 1, 2004 resulted from the following:

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2004-2005	\$445,308	\$132,320	(\$207,608)	\$370,020
2005-2006	\$370,020	\$400,949	(\$282,666)	\$488,303

At September 30, 2006, workers' compensation fund cash and investments of \$794,937 were held for the purpose of funding future obligations. The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2) Commitments and Contingencies

The City has several long-term agreements with significant commitments as follows:

- a. City of Dallas Water Purchase Agreement - The City purchases treated water from the City of Dallas under a 20-year contract negotiated in August 1990. The City makes payments to the City of Dallas at a rate of \$.3259 per 1,000 gallons plus \$165,369 per year for each million gallons per day rate of flow (maximum delivery rate). The City paid \$4,356,520 to the City of Dallas for the fiscal year ended September 30, 2006.
- b. Trinity River Authority (the "Authority") Sewage Disposal Agreement - On November 29, 1973, the City, along with other cities, entered into a 50-year contract with the Authority, whereby the Authority will provide and operate a regional wastewater treatment plant and wastewater conveyance facility constructed with the Authority's funds. In return, the cities agreed to pay for such services based on a usage formula that will provide reimbursements for operations, maintenance, and debt service payments to the Authority. The cities are jointly and severally responsible for the above payments. Each city's proportionate share is determined annually according to its contributing flow to the system. The City paid \$1,787,319 to the Authority for the fiscal year ended September 30, 2006.

The City is involved in various legal actions in which claims of varying amounts are being asserted against the City. The City follows the practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount. In the opinion of City management, these actions will not result in a significant impact on the City's financial position.

The City participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. For the year ended September 30, 2006, grant expenditures did not exceed the threshold for the single audit requirement; therefore, a single audit was not performed.

3) Other Postemployment Benefits

The City provides postemployment health care benefits, in accordance with City policy, to all employees who retire from the City at any age with 25 years of service or over 60 years of age with ten years of service. The benefit provided by the City consists of participation in the City's health insurance plan at the same cost as an employee until age 65. The City will no longer pay for this benefit for employees hired on and after January 1, 2007. Existing employees will be subject to vesting requirements. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2006, 54 retirees were covered by these benefits. The City paid approximately \$177,700 for postemployment health care.

4) Employee Retirement System

Plan Description - The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which,

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions - The contribution rate for the employees is 7% and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service cost contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2005 valuation is effective for rates beginning January 2007).

Actuarial Assumptions - The City of Farmers Branch is one of 811 municipalities having the benefit plan administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. Significant actuarial assumptions for the City may be found in Exhibit E-1, Required Supplemental Information.

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Three-Year Trend Information for the City of Farmers Branch

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 3,090,902	100%	0
2005	3,263,314	100%	0
2006	3,419,541	100%	0

Supplemental three-year trend information may be found in Exhibit E-1.

5) New GASB Standards

In fiscal year 2006, the City has implemented GASB Statement No. 44, *"Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1."* This statement establishes and modifies requirements related to the supplementary information presented in a statistical section. There was no effect on fund balance as a result of implementing this statement.

In fiscal year 2006, the City has implemented GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34."* This statement clarifies the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting for those restricted net assets. There was no effect on fund balance as a result of implementing this statement.

Statement No. 47, *"Accounting for Termination Benefits."* This statement defines the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives). This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB Statement No. 45, and (2) for other termination benefits, in the current fiscal year for the City. There was no effect on fund balance as a result of implementing part 2 of this statement this fiscal year.

NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This statement establishes standards for the measurement, recognition, and display for postemployment health care and other benefits if provided separately from a pension plan. This statement will become effective for the City in fiscal year 2009. The City has hired an actuarial firm to determine, and potentially mitigate, the impact of this statement.

Statement No. 48, *"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues."* This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement will become effective for the City in fiscal year 2008. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations."* This statement addresses accounting and financial reporting standards for pollution remediation obligations. This statement will become effective for the City in fiscal year 2009. Management has not yet determined the impact of this statement on the financial statements.

**6) Subsequent Event**

On November 21, 2006, the City of Farmers Branch defeased the Combination Tax and Revenue Certificates of Obligation Series 2004A. The payoff amount of \$926,154 was possible due to lower than anticipated construction costs for the community skating and conference facility.

REQUIRED SUPPLEMENTAL INFORMATION  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

Texas Municipal Retirement System Analysis of Funding Progress  
 Last Three Fiscal Years

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2004	12/31/2003	\$ 75,542,078	\$ 95,618,530	\$ 20,076,452	79.0%	\$ 22,127,745	90.7%
2005	12/31/2004	78,387,767	97,897,512	19,509,745	80.1%	22,254,755	87.7%
2006	12/31/2005	82,581,873	103,607,950	21,026,077	79.7%	22,850,365	92.0%

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation At	-	3.50%

## OTHER SUPPLEMENTAL INFORMATION



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## COMBINING FINANCIAL STATEMENTS

### NON-MAJOR GOVERNMENTAL FUNDS

#### SPECIAL REVENUE FUNDS

The Special Revenue Funds are used by the City to account for the accumulation and disbursement of restricted resources. The following is a description of the City's Special Revenue Funds:

Hotel/Motel - to account for receipt and allocation of the City's hotel/motel occupancy tax. Use of this tax is limited by law to the promotion of tourism. The City hotel occupancy tax rate for its twelve hotels is 7%.

Police Forfeitures - to account for proceeds from the sale of assets seized in connection with drug arrests. Revenues are reserved for law enforcement expenditures.

Donations - to account for voluntary contributions for community improvement.

Dividend - to account for the tax dividend program which rebates surplus funds to taxpayers.

Youth Scholarship - to account for voluntary contributions for youth scholarship.

Grants - to account for grant revenues and expenditures.

Municipal Court Fees - to account for the municipal court building security fee dedicated to courthouse security and the municipal court technology fee for the purchase of technological enhancements.

Stars Center - to account for Stars/Conference Center rental revenues and transfers to debt service for bond payments.

#### DEBT SERVICE FUND

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, governmental long-term debt principal and interest. The governmental long-term debt serviced by the Debt Service Fund consists of general obligation bonds and special revenue bonds.

#### CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for all resources used for the acquisition and/or construction of major capital facilities by the City, except those financed by the Enterprise Fund. The following is a description of the City's Capital Projects Funds:

Hotel/Motel Fund - to account for the construction and financing of historical park improvements, funded by hotel/motel tax revenues.

Hotel/Motel Bonds Fund - to account for expenditures for land acquisition related to the convention center property and design/renovation of existing structures on the property, funded by Combination Tax and Hotel Occupancy Tax certificates of obligation.

Non-Bond Convention Center Fund - to account for expenditures for renovation and improvements to the Convention Center, funded by transfers from the Hotel/Motel Special Revenue Fund.

Stars/Conference Center Bonds Fund - to account for construction of the Stars/Conference Center.

Water Bonds Fund - to account for the construction of various water facilities and infrastructure, funded by general obligation bonds.

TIF No. 2 District - to account for infrastructure construction in the Old Farmers Branch tax increment financing district, funded from developer contributions and advances and property tax payments.

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COMBINING BALANCE SHEET - SUMMARY  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash, cash equivalents, and investments	\$ 3,914,790	\$ 151,880	\$ 381,060	\$ 4,447,730
Receivables, net	448,314	235,097	5,073	688,484
Accrued interest and other	31,148		2,099	33,247
Inventories	4,301			4,301
Total assets	<u>\$ 4,398,553</u>	<u>\$ 386,977</u>	<u>\$ 388,232</u>	<u>\$ 5,173,762</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 79,371	\$	\$ 9,376	\$ 88,747
Due to other funds	255,000			255,000
Deposits	364,140			364,140
Deferred revenue	18,807	234,104	5,073	257,984
Advances from other funds			200,000	200,000
Total liabilities	<u>717,318</u>	<u>234,104</u>	<u>214,449</u>	<u>1,165,871</u>
Fund balances:				
Reserved for encumbrances	401,555			401,555
Reserved for construction			36,159	36,159
Reserved for debt service		152,873		152,873
Reserved for inventory	4,301			4,301
Reserved for law enforcement	648,523			648,523
Unreserved, designated	2,626,856		168,988	2,795,844
Unreserved, undesignated			(31,364)	(31,364)
Total fund balances	<u>3,681,235</u>	<u>152,873</u>	<u>173,783</u>	<u>4,007,891</u>
Total liabilities and fund balances	<u>\$ 4,398,553</u>	<u>\$ 386,977</u>	<u>\$ 388,232</u>	<u>\$ 5,173,762</u>

CITY OF FARMERS BRANCH, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2006

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Youth Scholarship	Grants
<b>ASSETS</b>					
Cash, cash equivalents, and investments	\$ 2,350,593	\$ 249,609	\$ 150,737	\$ 16,306	\$ 929
Receivables, net	189,468	243			258,001
Accrued interest and other	20,082	1,757	1,155	119	
Inventories	4,301				
Total assets	<u>\$ 2,564,444</u>	<u>\$ 251,609</u>	<u>\$ 151,892</u>	<u>\$ 16,425</u>	<u>\$ 258,930</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 67,474		\$ 11,143		\$ 250
Due to other funds					255,000
Deposits	4,140				
Deferred revenue		15,628			3,179
Total liabilities	<u>71,614</u>	<u>15,628</u>	<u>11,143</u>		<u>258,429</u>
Fund balances:					
Reserved for encumbrances	357,290	43,764			501
Reserved for inventory	4,301				
Reserved for law enforcement		192,217			
Unreserved:					
Designated for special purposes	2,131,239		140,749	16,425	
Total fund balances	<u>2,492,830</u>	<u>235,981</u>	<u>140,749</u>	<u>16,425</u>	<u>501</u>
Total liabilities and fund balances	<u>\$ 2,564,444</u>	<u>\$ 251,609</u>	<u>\$ 151,892</u>	<u>\$ 16,425</u>	<u>\$ 258,930</u>

Exhibit F-1a

Nonmajor Special Revenue Funds		Total
Municipal	Stars	Nonmajor
Court	Center	Special Revenue
Fees		Funds
\$ 453,346	\$ 693,270	\$ 3,914,790
602		448,314
2,862	5,173	31,148
		4,301
<u>\$ 456,810</u>	<u>\$ 698,443</u>	<u>\$ 4,398,553</u>
\$ 504	\$	\$ 79,371
		255,000
	360,000	364,140
		18,807
<u>504</u>	<u>360,000</u>	<u>717,318</u>
		401,555
		4,301
456,306		648,523
	338,443	2,626,856
<u>456,306</u>	<u>338,443</u>	<u>3,681,235</u>
<u>\$ 456,810</u>	<u>\$ 698,443</u>	<u>\$ 4,398,553</u>

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS  
SEPTEMBER 30, 2006

	Nonmajor Capital Projects Funds			Nonmajor Capital Projects Funds
	Hotel/ Motel	Water Bonds	TIF No. 2 District	
ASSETS				
Cash, cash equivalents, and investments	\$ 167,722	\$ 35,326	\$ 178,012	\$ 381,060
Receivables, net			5,073	5,073
Accrued interest and other	1,266	833		2,099
Total assets	<u>\$ 168,988</u>	<u>\$ 36,159</u>	<u>\$ 183,085</u>	<u>\$ 388,232</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$	\$ 9,376	\$ 9,376
Deferred revenue			5,073	5,073
Advances from other funds			200,000	200,000
Total liabilities			<u>214,449</u>	<u>214,449</u>
Fund balances:				
Reserved for:				
Construction		36,159		36,159
Unreserved:				
Designated for construction	168,988			168,988
Undesignated			(31,364)	(31,364)
Total fund balances	<u>168,988</u>	<u>36,159</u>	<u>(31,364)</u>	<u>173,783</u>
Total liabilities and fund balances	<u>\$ 168,988</u>	<u>\$ 36,159</u>	<u>\$ 183,085</u>	<u>\$ 388,232</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SUMMARY  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Property taxes	\$	\$ 3,247,551	\$	\$ 3,247,551
Hotel/motel taxes	2,249,499			2,249,499
Tax increment financing			14,067	14,067
Fines and forfeitures	131,426			131,426
Investment income	814,562		28,509	843,071
Intergovernmental	357,609			357,609
Miscellaneous	59,499			59,499
Total revenues	3,612,595	3,247,551	42,576	6,902,722
EXPENDITURES				
Current:				
General government	39,950			39,950
Public safety	438,826			438,826
Culture and recreation	1,229,863			1,229,863
Debt service:				
Principal retirement		3,320,000		3,320,000
Interest and fiscal agent charges		863,056		863,056
Capital outlay			101,735	101,735
Total expenditures	1,708,639	4,183,056	101,735	5,993,430
Excess (deficiency) of revenues over (under) expenditures	1,903,956	(935,505)	(59,159)	909,292
OTHER FINANCING SOURCES (USES)				
Transfers in	1,150,557	994,500		2,145,057
Transfers out	(1,260,830)		(1,150,557)	(2,411,387)
Total other financing sources (uses)	(110,273)	994,500	(1,150,557)	(266,330)
Net change in fund balances	1,793,683	58,995	(1,209,716)	642,962
Fund balances--beginning	1,887,552	93,878	1,383,499	3,364,929
Fund balances--ending	\$ 3,681,235	\$ 152,873	\$ 173,783	\$ 4,007,891



CITY OF FARMERS BRANCH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Dividend	Youth Scholarship
REVENUES					
Hotel/motel taxes	\$ 2,249,499	\$	\$	\$	\$
Fines and forfeitures		37,944			
Investment income	132,050	11,327	7,059		728
Intergovernmental					
Miscellaneous	9,125		47,618		2,756
Total revenues	2,390,674	49,271	54,677		3,484
EXPENDITURES					
General government			39,629		
Public safety		12,934	3,717		
Culture and recreation	1,203,534		15,625		1,687
Total expenditures	1,203,534	12,934	58,971		1,687
Excess (deficiency) of revenues over (under) expenditures	1,187,140	36,337	(4,294)		1,797
OTHER FINANCING USES					
Transfers in	1,150,557				
Transfers out	(757,500)			(8,330)	
Total other financing uses	393,057			(8,330)	
Net change in fund balances	1,580,197	36,337	(4,294)	(8,330)	1,797
Fund balances--beginning	912,633	199,644	145,043	8,330	14,628
Fund balances--ending	\$ 2,492,830	\$ 235,981	\$ 140,749	\$	\$ 16,425

Exhibit F-2a

Nonmajor Special Revenue Funds			Total
Grants	Municipal Court Fees	Stars Center	Nonmajor Special Revenue Funds
\$	\$	\$	\$
	93,482		2,249,499
	17,503	645,895	131,426
357,609			814,562
			357,609
			59,499
357,609	110,985	645,895	3,612,595
321			39,950
349,460	72,715		438,826
9,017			1,229,863
358,798	72,715		1,708,639
(1,189)	38,270	645,895	1,903,956
			1,150,557
		(495,000)	(1,260,830)
		(495,000)	(110,273)
(1,189)	38,270	150,895	1,793,683
1,690	418,036	187,548	1,887,552
\$ 501	\$ 456,306	\$ 338,443	\$ 3,681,235

CITY OF FARMERS BRANCH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Nonmajor Capital Projects Funds					
	Hotel/ Motel	Hotel/ Motel Bonds	Non-Bond Convention Center	Stars/Conference Center Bonds	Water Bonds	TIF No. 2 District
REVENUES						
Tax increment financing	\$	\$	\$	\$	\$	\$ 14,067
Investment income	7,746		11,200	4,200	5,095	268
Total revenues	7,746		11,200	4,200	5,095	14,335
EXPENDITURES						
Capital outlay					74,224	27,511
Excess (deficiency) of revenues over (under) expenditures	7,746		11,200	4,200	(69,129)	(13,176)
OTHER FINANCING SOURCES						
Transfers out		(368,325)	(570,452)	(211,780)		
Net change in fund balances	7,746	(368,325)	(559,252)	(207,580)	(69,129)	(13,176)
Fund balances--beginning	161,242	368,325	559,252	207,580	105,288	(18,188)
Fund balances--ending	\$ 168,988	\$	\$	\$	\$ 36,159	\$ (31,364)

<hr/>	
Total Nonmajor Capital Projects Funds	
<hr/>	
\$	14,067
	28,509
<hr/>	
	42,576
<hr/>	
	101,735
<hr/>	
	(59,159)
<hr/>	
	(1,150,557)
<hr/>	
	(1,209,716)
<hr/>	
	1,383,499
<hr/>	
\$	173,783
<hr/>	

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**SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL:**

General Fund, Special Revenue Funds, and Debt Service Fund

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SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	2006					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Final Budget - Positive (Negative)
REVENUES						
Property taxes	\$ 13,465,000	\$ 13,465,000	\$ 13,406,656	\$	\$ 13,406,656	\$ (58,344)
Sales and use tax	11,213,000	11,773,000	11,240,717		11,240,717	(532,283)
Franchise taxes	4,508,200	5,708,200	5,846,634		5,846,634	138,434
Licenses and permits	632,000	872,000	901,032		901,032	29,032
Charges for services	4,794,600	4,649,600	4,553,630		4,553,630	(95,970)
Fines and forfeitures	2,617,000	2,617,000	2,520,119		2,520,119	(96,881)
Investment income	718,000	878,000	970,781		970,781	92,781
Miscellaneous	138,000	138,000	125,666		125,666	(12,334)
Total revenues	38,085,800	40,100,800	39,565,235		39,565,235	(535,565)
EXPENDITURES						
Current:						
General government:						
General contracts	181,000	181,000	181,000		181,000	
General government	120,200	129,500	100,501	2,455	102,956	26,544
City administration	2,024,900	2,030,400	1,726,689	46,263	1,772,952	257,448
Communications	394,400	397,900	393,565	231	393,796	4,104
Economic development	323,900	327,300	296,130	4,869	300,999	26,301
Human resources	686,600	715,500	700,438	724	701,162	14,338
Finance	2,887,900	2,900,100	2,780,649	3,392	2,784,041	116,059
Community services	2,210,400	2,272,500	2,222,645	(9,986)	2,212,659	59,841
Public safety:						
Police	9,144,000	9,155,400	9,063,401	31,418	9,094,819	60,581
Fire	6,441,800	6,698,000	6,713,856	(6,020)	6,707,836	(9,836)
Public works:						
Public works	4,743,600	4,573,500	4,560,241	(126,000)	4,434,241	139,259
Engineering	2,157,600	2,186,500	2,176,291	(58,782)	2,117,509	68,991
Culture and recreation:						
Parks and recreation	7,835,200	8,021,000	7,757,773	(15,530)	7,742,243	278,757
Library	1,754,300	1,748,500	1,619,131	(537)	1,618,594	129,906
Total expenditures	40,905,800	41,337,100	40,292,310	(127,503)	40,164,807	1,172,293
Excess (deficiency) of revenues over (under) expenditures	(2,820,000)	(1,236,300)	(727,075)	127,503	(599,572)	636,728
OTHER FINANCING SOURCES (USES)						
Transfers in	2,533,300	2,533,300	2,612,451		2,612,451	79,151
Transfers out	(137,500)	(137,500)	(137,500)		(137,500)	
Sale of capital assets/insurance recoveries	200,000	221,500	257,523		257,523	36,023
Total other financing sources	2,595,800	2,617,300	2,732,474		2,732,474	115,174
Net change in fund balance	(224,200)	1,381,000	2,005,399	127,503	2,132,902	751,902
Fund balances--beginning	12,101,086	12,101,086	13,128,302	(1,027,216)	12,101,086	
Fund balances--ending	\$ 11,876,886	\$ 13,482,086	\$ 15,133,701	\$ (899,713)	\$ 14,233,988	\$ 751,902



CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Hotel/Motel			Police Forfeitures		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$ 2,150,000	\$ 2,249,499	\$ 99,499	\$	\$	\$
Fines, forfeitures, and assessments				20,000	37,944	17,944
Investment income	52,500	132,050	79,550		11,327	11,327
Intergovernmental						
Donations and miscellaneous	9,300	9,125	(175)			
Total revenues	2,211,800	2,390,674	178,874	20,000	49,271	29,271
EXPENDITURES						
General government						
Public safety				97,400	56,698	40,702
Culture and recreation	1,522,800	1,227,276	295,524			
Total expenditures	1,522,800	1,227,276	295,524	97,400	56,698	40,702
Excess (deficiency) of revenues over (under) expenditures	689,000	1,163,398	474,398	(77,400)	(7,427)	69,973
OTHER FINANCING USES						
Transfers in	1,140,332	1,150,557	10,225			
Transfers out	(757,500)	(757,500)				
Total other financing uses	382,832	393,057	10,225			
Net change in fund balances	1,071,832	1,556,455	484,623	(77,400)	(7,427)	69,973
Fund balances--beginning	579,085	579,085		199,644	199,644	
Fund balances--ending	\$ 1,650,917	\$ 2,135,540	\$ 484,623	\$ 122,244	\$ 192,217	\$ 69,973

Donations			Dividend			Youth Scholarships		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
	7,059	7,059					728	728
36,018	47,618	11,600				3,000	2,756	(244)
36,018	54,677	18,659				3,000	3,484	484
49,502	37,455	12,047						
6,000	2,117	3,883						
44,000	15,625	28,375				5,900	1,687	4,213
99,502	55,197	44,305				5,900	1,687	4,213
(63,484)	(520)	62,964				(2,900)	1,797	4,697
				(8,330)	(8,330)			
				(8,330)	(8,330)			
(63,484)	(520)	62,964		(8,330)	(8,330)	(2,900)	1,797	4,697
141,269	141,269		8,330	8,330		14,628	14,628	
\$ 77,785	\$ 140,749	\$ 62,964	\$ 8,330	\$	\$ (8,330)	\$ 11,728	\$ 16,425	\$ 4,697

(continued)

CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 NONMAJOR SPECIAL REVENUE FUNDS  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Grants			Municipal Court Fees		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$	\$	\$	\$	\$	\$
Fines, forfeitures, and assessments				86,700	93,482	6,782
Investment income					17,503	17,503
Intergovernmental	364,209	357,609	(6,600)			
Donations and miscellaneous						
Total revenues	364,209	357,609	(6,600)	86,700	110,985	24,285
EXPENDITURES						
General government	700	321	379			
Public safety	356,182	349,961	6,221	83,570	72,715	10,855
Culture and recreation	9,017	9,017				
Total expenditures	365,899	359,299	6,600	83,570	72,715	10,855
Excess (deficiency) of revenues over (under) expenditures	(1,690)	(1,690)		3,130	38,270	35,140
OTHER FINANCING USES						
Transfers in						
Transfers out						
Total other financing uses						
Net change in fund balances	(1,690)	(1,690)		3,130	38,270	35,140
Fund balances--beginning	1,690	1,690		418,036	418,036	
Fund balances--ending	\$	\$	\$	\$ 421,166	\$ 456,306	\$ 35,140

Stars Center			Totals		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$ 2,150,000	\$ 2,249,499	\$ 99,499
			106,700	131,426	24,726
600,000	645,895	45,895	652,500	814,562	162,062
			364,209	357,609	(6,600)
			48,318	59,499	11,181
600,000	645,895	45,895	3,321,727	3,612,595	290,868
			50,202	37,776	12,426
			543,152	481,491	61,661
			1,581,717	1,253,605	328,112
			2,175,071	1,772,872	402,199
600,000	645,895	45,895	1,146,656	1,839,723	693,067
			1,140,332	1,150,557	10,225
(495,000)	(495,000)		(1,252,500)	(1,260,830)	(8,330)
(495,000)	(495,000)		(112,168)	(110,273)	1,895
105,000	150,895	45,895	1,034,488	1,729,450	694,962
187,548	187,548		1,550,230	1,550,230	
\$ 292,548	\$ 338,443	\$ 45,895	\$ 2,584,718	\$ 3,279,680	\$ 694,962

(concluded)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 DEBT SERVICE FUND  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES			
Property taxes	\$ 3,277,200	\$ 3,247,551	\$ (29,649)
EXPENDITURES			
Principal retirement	3,320,000	3,320,000	
Interest and fiscal agent charges	882,400	863,056	19,344
Total expenditures	4,202,400	4,183,056	19,344
Deficiency of revenues under expenditures	(925,200)	(935,505)	(10,305)
OTHER FINANCING USES			
Transfers in	994,500	994,500	
Net change in fund balances	69,300	58,995	(10,305)
Fund balances--beginning	93,878	93,878	
Fund balances--ending	\$ 163,178	\$ 152,873	\$ (10,305)

## COMBINING FINANCIAL STATEMENTS

### INTERNAL SERVICE FUNDS

The Internal Service Funds account for the financing services provided by one department to other departments of the City on a cost reimbursement basis. The following is a description of the City's Internal Service Funds:

Equipment Services Fund - to account for materials and supplies provided exclusively to other funds and departments of the City.

Workers' Compensation Fund - to account for the City's workers' compensation self-insurance program.

COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
SEPTEMBER 30, 2006

	Equipment Services	Workers' Compensation	Total
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents, and investments	\$ 144,272	\$ 794,937	\$ 939,209
Receivables, net	3,320		3,320
Inventories and prepayments	78,242		78,242
Deposits		36,000	36,000
Total current assets	225,834	830,937	1,056,771
Noncurrent assets:			
Capital assets:			
Nondepreciable	8,170		8,170
Depreciable, net of accumulated depreciation	191,640		191,640
Total noncurrent assets	199,810		199,810
Total assets	425,644	830,937	1,256,581
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	44,957	68,586	113,543
Claims payable		195,321	195,321
Compensated absences	24,899		24,899
Total current liabilities	69,856	263,907	333,763
Noncurrent liabilities:			
Claims payable		292,982	292,982
Compensated absences	113,669		113,669
Total noncurrent liabilities	113,669	292,982	406,651
Total liabilities	183,525	556,889	740,414
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	199,810		199,810
Unrestricted	42,309	274,048	316,357
Total net assets	\$ 242,119	\$ 274,048	\$ 516,167

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Equipment Services	Workers' Compensation	Total
Operating revenues			
Charges for services	\$ 1,954,325	\$	\$ 1,954,325
Contributions and miscellaneous		562,361	562,361
Total operating revenues	1,954,325	562,361	2,516,686
Operating expenses			
Personal services	720,062		720,062
Materials and supplies	977,814		977,814
Maintenance and utilities	193,675		193,675
Insurance claims and expenses		509,488	509,488
Depreciation	21,610		21,610
Total operating expenses	1,913,161	509,488	2,422,649
Operating income/change in net assets	41,164	52,873	94,037
Net assets--beginning	200,955	221,175	422,130
Net assets--ending	\$ 242,119	\$ 274,048	\$ 516,167



COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	Equipment Services	Workers' Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 1,951,005	\$ 582,361	\$ 2,533,366
Payments to suppliers	(1,181,685)	31,702	(1,149,983)
Payments to employees	(707,840)		(707,840)
Payments for loss claims		(391,205)	(391,205)
Net cash provided by operating activities	61,480	222,858	284,338
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(20,465)		(20,465)
Net cash used by capital and related financing activities	(20,465)		(20,465)
Net decrease in cash and cash equivalents	41,015	222,858	263,873
Cash and cash equivalents - beginning of year	103,257	572,079	675,336
Cash and cash equivalents - end of year	\$ 144,272	\$ 794,937	\$ 939,209
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating income before transfers	\$ 41,164	\$ 52,873	\$ 94,037
Adjustments to reconcile operating loss before transfers to net cash provided (used) by operating activities:			
Depreciation	21,610		21,610
Changes in assets and liabilities:			
Increase in receivables	(3,320)		(3,320)
Decrease in inventory of materials and supplies	17,193		17,193
Increase in prepaid expenses	(3,555)		(3,555)
Decrease in deposits		20,000	20,000
Increase (decrease) in accrued liabilities	(24,738)	31,702	6,964
Increase in claims payable		118,283	118,283
Increase in accrued compensated absences	13,126		13,126
Net cash provided by operating activities	\$ 61,480	\$ 222,858	\$ 284,338

## STATISTICAL SECTION (Unaudited)

The City of Farmers Branch's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

		Page
Financial Trends	These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	72 - 75
Revenue Capacity	These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	76 - 83
Debt Capacity	These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	84 - 87
Demographic & Economic Indicators	These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	88 - 89
Operating Information	These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	90 - 95

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

NET ASSETS BY COMPONENT  
 LAST FIVE FISCAL YEARS  
 (accrual basis of accounting)  
 (UNAUDITED)

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities:					
Invested in capital assets, net of related debt	\$ 78,568,533	\$ 87,037,971	\$ 90,059,354	\$ 93,781,812	\$ 98,657,412
Restricted	5,751,791	4,976,354	3,260,438	5,442,628	2,237,530
Unrestricted	30,275,062	22,339,613	20,318,481	16,924,700	17,915,931
Total governmental activities net assets	<u>\$ 114,595,386</u>	<u>\$ 114,353,938</u>	<u>\$ 113,638,273</u>	<u>\$ 116,149,140</u>	<u>\$ 118,810,873</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 40,498,414	\$ 42,643,924	\$ 42,594,070	\$ 42,492,826	\$ 44,402,198
Restricted	7,189,902	6,218,858	5,612,230	5,294,103	4,926,756
Unrestricted	11,597,277	9,311,455	8,337,951	8,689,125	12,289,442
Total business-type activities net assets	<u>\$ 59,285,593</u>	<u>\$ 58,174,237</u>	<u>\$ 56,544,251</u>	<u>\$ 56,476,054</u>	<u>\$ 61,618,396</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 119,066,947	\$ 129,681,895	\$ 132,653,424	\$ 136,274,638	\$ 143,059,610
Restricted	12,941,693	11,195,212	8,872,668	10,736,731	7,164,286
Unrestricted	41,872,339	31,651,068	28,656,432	25,613,825	30,205,373
Total primary government net assets	<u>\$ 173,880,979</u>	<u>\$ 172,528,175</u>	<u>\$ 170,182,524</u>	<u>\$ 172,625,194</u>	<u>\$ 180,429,269</u>

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CHANGES IN NET ASSETS  
 LAST FIVE FISCAL YEARS  
 (accrual basis of accounting)  
 (UNAUDITED)

	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Expenses</b>					
Governmental activities:					
General government	\$ 7,685,900	\$ 7,466,295	\$ 7,846,552	\$ 7,797,289	\$ 8,489,684
Public safety	14,324,462	14,541,067	14,785,034	15,536,770	15,934,442
Public works	10,573,887	11,779,719	11,152,223	10,497,625	11,940,111
Culture and recreation	9,783,696	9,764,220	13,689,052	11,041,720	11,292,821
Interest on long-term debt	1,355,307	1,093,578	978,999	1,240,816	1,353,926
Unallocated depreciation	128,974	138,735	141,602	144,510	166,626
Total governmental activities expenses	43,852,226	44,783,614	48,593,462	46,258,730	49,177,610
Business-type activities:					
Water and sewer	10,562,202	10,666,145	10,710,107	10,269,021	10,646,221
Public improvement district	379,657	234,163	215,513	222,959	216,572
Total business-type activities expenses	10,941,859	10,900,308	10,925,620	10,491,980	10,862,793
Total primary government expenses	\$ 54,794,085	\$ 55,683,922	\$ 59,519,082	\$ 56,750,710	\$ 60,040,403
<b>Program Revenues</b>					
Governmental activities:					
Charges for services					
Public safety	\$ 3,421,521	\$ 3,503,599	\$ 3,978,897	\$ 3,967,328	\$ 3,906,555
Public works	3,366,695	3,446,822	3,260,049	3,550,264	3,536,009
Other	1,133,799	1,066,920	1,616,740	1,599,155	1,789,155
Operating grants and contributions	106,082	181,750	122,933	64,746	140,829
Capital grants and contributions	1,449,950	671,174	2,626,760	1,566,453	1,888,355
Total governmental activities program revenues	9,478,047	8,870,265	11,605,379	10,747,946	11,260,903
Business-type activities:					
Charges for services	11,005,950	10,816,097	10,888,765	12,018,005	15,360,543
Capital grants and contributions	708,700	680,244	317,971	185,349	109,804
Total business-type activities program revenues	11,714,650	11,496,341	11,206,736	12,203,354	15,470,347
Total primary government program revenues	\$ 21,192,697	\$ 20,366,606	\$ 22,812,115	\$ 22,951,300	\$ 26,731,250
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (34,374,179)	\$ (35,913,349)	\$ (36,988,083)	\$ (35,510,784)	\$ (37,916,707)
Business-type activities	772,791	596,033	281,116	1,711,374	4,607,554
Total primary government net expense	\$ (33,601,388)	\$ (35,317,316)	\$ (36,706,967)	\$ (33,799,410)	\$ (33,309,153)
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Property taxes, levied for general purposes	\$ 13,105,275	\$ 13,084,066	\$ 12,644,154	\$ 12,866,630	\$ 13,315,728
Property taxes, levied for debt service	3,533,933	3,302,678	3,348,361	3,496,761	3,223,213
Sales and use taxes	11,556,669	10,048,764	10,277,538	10,789,405	11,240,717
Other taxes	7,789,704	7,317,863	7,215,972	7,121,051	9,545,758
Investment income	1,966,845	1,085,223	757,793	1,720,704	3,225,628
Gain on sale/retirement of capital assets	598,576	(1,138,493)			45,001
Transfers	1,975,600	1,971,800	2,028,600	2,027,100	(17,605)
Total governmental activities	40,526,602	35,671,901	36,272,418	38,021,651	40,578,440
Business-type activities:					
Investment income	502,281	264,411	117,498	227,204	537,508
Transfers	(1,975,600)	(1,971,800)	(2,028,600)	(2,027,100)	17,605
Total business-type activities	(1,473,319)	(1,707,389)	(1,911,102)	(1,799,896)	555,113
Total primary government	\$ 39,053,283	\$ 33,964,512	\$ 34,361,316	\$ 36,221,755	\$ 41,133,553
<b>Change in Net Assets</b>					
Governmental activities	\$ 6,152,423	\$ (241,448)	\$ (715,665)	\$ 2,510,867	\$ 2,661,733
Business-type activities	(700,528)	(1,111,356)	(1,629,986)	(88,522)	5,162,667
Total primary government	\$ 5,451,895	\$ (1,352,804)	\$ (2,345,651)	\$ 2,422,345	\$ 7,824,400

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST FIVE FISCAL YEARS  
 (modified accrual basis of accounting)  
 (UNAUDITED)

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund					
Reserved	\$ 1,290,793	\$ 1,643,908	\$ 1,457,515	\$ 1,043,579	\$ 720,842
Unreserved	15,289,780	12,298,410	12,143,764	12,084,723	14,412,859
Total general fund	<u>\$ 16,580,573</u>	<u>\$ 13,942,318</u>	<u>\$ 13,601,279</u>	<u>\$ 13,128,302</u>	<u>\$ 15,133,701</u>
All Other Governmental Funds					
Reserved	\$ 8,436,355	\$ 7,601,946	\$ 6,382,424	\$ 7,519,723	\$ 4,996,494
Unreserved, reported in:					
Special revenue funds	5,575,458	6,386,566	6,534,419	6,387,656	9,338,014
Capital project funds	19,321,730	14,084,420	13,210,667	12,183,734	8,233,128
Total all other governmental funds	<u>\$ 33,333,543</u>	<u>\$ 28,072,932</u>	<u>\$ 26,127,510</u>	<u>\$ 26,091,113</u>	<u>\$ 22,567,636</u>

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
 LAST FIVE FISCAL YEARS  
 (modified accrual basis of accounting)  
 (UNAUDITED)

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>REVENUES</b>					
Property taxes	\$ 16,799,942	\$ 16,176,029	\$ 15,948,557	\$ 16,283,045	\$ 16,654,207
Sales and use taxes	11,556,669	10,048,764	10,277,538	10,789,405	11,240,717
Hotel/motel taxes	2,026,831	1,797,279	1,786,530	1,965,693	2,249,499
Franchise taxes	5,008,153	4,622,907	4,577,748	4,401,914	5,846,634
Tax increment financing	769,566	809,087	1,315,748	739,795	727,185
Licenses and permits	651,010	535,374	679,716	702,623	901,032
Charges for services	4,535,621	4,689,125	5,003,761	5,474,608	5,521,947
Fines and forfeitures	2,538,801	2,653,967	2,941,491	2,816,349	2,651,545
Investment income	1,966,845	1,085,223	757,793	1,693,480	2,799,628
Intergovernmental	1,481,043	750,456	2,687,914	1,395,173	1,866,433
Miscellaneous	190,948	180,213	355,717	355,518	297,542
Total revenues	<u>47,525,429</u>	<u>43,348,424</u>	<u>46,332,513</u>	<u>46,617,603</u>	<u>50,756,369</u>
<b>EXPENDITURES</b>					
General government	7,684,132	7,450,269	7,748,593	7,604,968	8,441,567
Public safety	14,073,774	14,412,305	15,989,098	16,344,952	16,216,083
Public works	7,064,397	7,154,373	6,583,462	6,685,000	6,750,691
Culture and recreation	9,330,129	9,488,766	9,475,882	10,143,731	10,606,767
Debt service:					
Principal retirement	2,865,000	3,311,709	3,155,000	3,220,000	3,320,000
Interest and fiscal agent charges	1,209,213	928,393	613,301	961,455	863,056
Issuance costs		189,949	234,310		
Capital outlay	10,207,546	10,546,677	16,248,988	8,197,375	9,957,833
Total expenditures	<u>52,434,191</u>	<u>53,482,441</u>	<u>60,048,634</u>	<u>53,157,481</u>	<u>56,155,997</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,908,762)</u>	<u>(10,134,017)</u>	<u>(13,716,121)</u>	<u>(6,539,878)</u>	<u>(5,399,628)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	6,654,452	5,848,900	4,245,511	4,231,842	4,895,008
Transfers out	(4,678,852)	(3,877,100)	(2,216,911)	(2,204,742)	(2,669,708)
Developer advances	3,412,307	16,900	253,390	3,849,257	1,398,727
Refunding bonds issued		13,748,662	8,865,000		
Payment to refunded bond escrow agent		(13,535,212)			
Discount on refunded bonds		(13,545)	(15,262)		
Sale of capital assets/insurance recoveries	856,229	46,546	297,932	154,147	257,523
Total other financing sources (uses)	<u>6,244,136</u>	<u>2,235,151</u>	<u>11,429,660</u>	<u>6,030,504</u>	<u>3,881,550</u>
Net change in fund balances	<u>1,335,374</u>	<u>(7,898,866)</u>	<u>(2,286,461)</u>	<u>(509,374)</u>	<u>(1,518,078)</u>
Debt service as a percentage of noncapital expenditures	9.65%	10.32%	9.14%	9.30%	9.05%

Note: The City began to report accrual information when it implemented GASB Standard 34 in fiscal year 2002.

CITY OF FARMERS BRANCH, TEXAS

ESTIMATED ACTUAL AND ASSESSED VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS  
(UNAUDITED)

FISCAL YEAR	RESIDENTIAL PROPERTY			COMMERCIAL PROPERTY		
	ESTIMATED	LESS:	ASSESSED VALUE	ESTIMATED	LESS:	ASSESSED VALUE
	ACTUAL	TAX		ACTUAL	TAX	
	VALUE	EXEMPTIONS		VALUE	EXEMPTIONS	
1997	\$ 710,710,730	\$ 223,726,116	\$ 486,984,614	\$ 1,340,992,360	\$ 155,068,672	\$ 1,185,923,688
1998	728,410,780	229,387,447	499,023,333	1,530,991,750	160,320,914	1,370,670,836
1999	749,265,380	235,606,383	513,658,997	1,797,666,250	185,591,140	1,612,075,110
2000	794,049,730	252,868,204	541,181,526	2,026,248,010	343,216,122	1,683,031,888
2001	852,916,320	270,695,268	582,221,052	2,170,333,000	397,470,026	1,772,862,974
2002	915,596,290	286,941,475	628,654,815	2,305,524,720	435,616,814	1,869,907,906
2003	1,022,865,830	327,966,324	694,899,506	2,295,268,480	531,261,544	1,764,006,936
2004	1,072,890,000	330,068,183	742,821,817	2,102,559,690	506,450,763	1,596,108,927
2005	1,099,799,270	324,929,103	774,870,167	1,830,594,430	372,949,338	1,457,645,092
2006	1,145,354,860	330,535,831	814,819,029	2,050,631,160	512,078,808	1,538,552,352

Source: Dallas Central Appraisal District

Note: Property in the city is reassessed at least every three years. Property is assessed at actual value; therefore, the assessed values are equal to actual value less exemptions. Tax rates are per \$100 of assessed value.

TABLE 5

BUSINESS-PERSONAL PROPERTY			TOTAL			TOTAL DIRECT TAX RATE
ESTIMATED	LESS:	ASSESSED VALUE	ESTIMATED	LESS:	ASSESSED VALUE	
ACTUAL	TAX		ACTUAL	TAX		
VALUE	EXEMPTIONS		VALUE	EXEMPTIONS		
\$ 1,088,225,350	\$	\$ 1,088,225,350	\$ 3,139,928,440	\$ 378,794,788	\$ 2,761,133,652	\$ 0.4400
1,185,011,980	644,440	1,184,367,540	3,444,414,510	390,352,801	3,054,061,709	0.4400
1,227,591,930	982,330	1,226,609,600	3,774,523,560	422,179,853	3,352,343,707	0.4400
1,323,067,500	4,058,356	1,319,009,144	4,143,365,240	600,142,682	3,543,222,558	0.4400
1,336,074,950	2,707,827	1,333,367,123	4,359,324,270	670,873,121	3,688,451,149	0.4400
1,414,502,690	1,964,435	1,412,538,255	4,635,623,700	724,522,724	3,911,100,976	0.4400
1,328,059,140	1,676,856	1,326,382,284	4,646,193,450	860,904,724	3,785,288,726	0.4400
1,221,611,230	2,329,581	1,219,281,649	4,397,060,920	838,848,527	3,558,212,393	0.4600
1,098,180,490	77,069,672	1,021,110,818	4,028,574,190	774,948,113	3,253,626,077	0.4945
1,061,094,740	116,725,093	944,369,647	4,257,080,760	959,339,732	3,297,741,028	0.4945



CITY OF FARMERS BRANCH, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX RATES  
(PER \$100 OF ASSESSED VALUE)  
LAST TEN FISCAL YEARS  
(UNAUDITED)

FISCAL YEAR	CITY DIRECT RATES			OVERLAPPING RATES (1)					
	GENERAL			CARROLLTON - FARMERS BRANCH I.S.D.	DALLAS I.S.D.	DALLAS COUNTY	DALLAS COUNTY HOSPITAL	DALLAS COUNTY COMMUNITY COLLEGE	
	BASIC RATE	OBLIGATION DEBT SERVICE	TOTAL DIRECT (2)						
1997	\$ 0.3069	\$ 0.1331	\$ 0.4400	\$ 1.4619	\$ 1.4605	\$ 0.2164	\$ 0.1941	\$ 0.0521	
1998	0.3110	0.1290	0.4400	1.4961	1.4605	0.2073	0.1858	0.0500	
1999	0.3277	0.1123	0.4400	1.5377	1.4605	0.2032	0.1799	0.0500	
2000	0.3352	0.1048	0.4400	1.6137	1.4605	0.2017	0.1960	0.0500	
2001	0.3414	0.0986	0.4400	1.6737	1.5475	0.2017	0.2540	0.0500	
2002	0.3486	0.0914	0.4400	1.7242	1.5475	0.2015	0.2540	0.0600	
2003	0.3511	0.0889	0.4400	1.7224	1.5875	0.2015	0.2540	0.0600	
2004	0.3670	0.0930	0.4600	1.7358	1.6395	0.2094	0.2540	0.0778	
2005	0.3965	0.0980	0.4945	1.7824	1.6694	0.2094	0.2540	0.0803	
2006	0.3985	0.0960	0.4945	1.8259	1.6884	0.2192	0.2540	0.0816	

Source: Dallas Central Appraisal District

Notes:

- (1) Overlapping rates are those of local and county governments that apply to property owners within the City of Farmers Branch. Not all overlapping rates apply to all city property owners; for example, although the county property tax rates apply to all city property owners, the Dallas Independent School District (ISD) rates apply only to the approximately 23.3% of city property owners whose property is located within that district's geographic boundaries.
- (2) The City's basic property tax rate may be increased only by a majority vote of the City Council up to the limits of State law, after which the city's residents may petition for a vote. Rates for debt service are set based on each year's requirements.
- (3) Does not include Dallas ISD as school districts do not overlap each other.

TABLE 6

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TOTAL (3)	
\$	2.3645
	2.3792
	2.4108
	2.5014
	2.6194
	2.6797
	2.6779
	2.7370
	2.8206
	2.8752

CITY OF FARMERS BRANCH, TEXAS

DIRECT AND OVERLAPPING PROPERTY TAX LEVIES  
LAST TEN FISCAL YEARS  
(UNAUDITED)

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FISCAL YEAR	FARMERS BRANCH	CARROLLTON- FARMERS BRANCH I.S.D.	DALLAS I.S.D.	DALLAS COUNTY
1997	\$ 12,148,988	\$ 127,993,397	\$ 560,794,768	\$ 182,065,824
1998	13,437,872	152,880,860	650,103,301	198,582,049
1999	14,750,312	156,346,660	648,058,222	196,438,846
2000	15,590,179	181,588,620	714,304,951	214,152,276
2001	16,229,185	207,702,320	814,504,457	229,881,236
2002	17,208,844	228,677,587	879,160,759	249,177,867
2003	16,655,270	234,702,492	925,488,279	258,759,275
2004	16,367,777	224,290,076	947,346,797	267,269,899
2005	16,089,181	221,371,359	983,293,871	271,367,179
2006	16,307,329	230,386,930	1,044,465,976	296,814,473

Source: Dallas Central Appraisal District

TABLE 7

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DALLAS COUNTY HOSPITAL		DALLAS COUNTY COMMUNITY COLLEGE	
<hr/>		<hr/>	
\$	163,295,478	\$	44,164,802
	175,771,715		49,958,604
	190,828,377		49,769,926
	209,177,130		54,583,760
	289,535,888		58,700,680
	314,100,139		76,722,430
	326,177,945		79,860,112
	324,257,520		103,074,389
	329,228,427		107,927,170
	343,936,479		114,768,496

PRINCIPAL PROPERTY TAX PAYERS  
CURRENT YEAR AND NINE YEARS AGO  
(UNAUDITED)

TAXPAYER	2006			1997		
	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE (a)	TAXABLE ASSESSED VALUE	RANK	PERCENTAGE OF TOTAL CITY TAXABLE ASSESSED VALUE (b)
Southwestern Bell/Cingular	\$ 137,207,020	1	4.16%	\$ 36,933,710	4	1.34%
Dallas Semiconductor	83,110,672	2	2.52%	82,300,720	1	2.98%
Prentiss Properties Real	62,147,380	3	1.88%			
Quebecor Printing Inc.	49,518,090	4	1.50%	36,691,730	5	1.33%
Occidental Chemical Tower Corp.	48,821,140	5	1.48%	40,323,200	2	1.46%
Daltex Centre LP	42,177,340	6	1.28%			
Providence Towers Dallas	41,179,160	7	1.25%	35,225,770	6	1.28%
Glazers	37,356,850	8	1.13%			
Tuesday Morning PS Ltd	34,224,509	9	1.04%			
Stanley Mechanics Tools	28,957,880	10	0.88%			
IBM Corporation				29,261,950	10	1.06%
Park West						
Blue Lake				39,049,990	3	1.41%
Cullum Development Company				32,785,930	7	1.19%
Sysco Food Incorporated				32,073,160	8	1.16%
Principal Mutual Life				30,709,040	9	1.11%
	<u>\$ 564,700,041</u>		<u>17.12%</u>	<u>\$ 395,355,200</u>		<u>14.32%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

Note:

(a) Total taxable value October 1, 2005 is \$3,297,741,028.

(b) Total taxable value October 1, 1996 is \$2,761,133,652.

PROPERTY TAX LEVIES AND COLLECTIONS <sup>(1)</sup>  
 LAST FIVE FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	ACTUAL LEVY YEAR	TAXES LEVIED FOR THE FISCAL YEAR	(2)	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY				COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
				CURRENT TAX COLLECTIONS	(3)	PERCENT OF LEVY COLLECTED	(4)		TOTAL TAX COLLECTIONS	PERCENT OF TOTAL TAX COLLECTIONS TO TAX LEVY
2002	2001	\$ 17,208,844		\$ 16,865,453		98.00%		\$ 64,205	\$ 16,929,658	98.38%
2003	2002	16,655,270		16,194,052		97.23%		118,990	16,313,042	97.95%
2004	2003	16,367,777		15,742,089		96.18%		92,583	15,834,672	96.66%
2005	2004	16,089,181		16,041,941		99.71%		95,830	16,137,771	100.30%
2006	2005	16,307,329		16,410,700		100.63%			16,410,700	100.63%

Source: Dallas County Tax Office

Notes:

- (1) Information prior to fiscal year 2002 is not available.  
 (2) The original levy is as of July of the previous fiscal year and does not include any subsequent adjustments.  
 (3) Collections are based on adjusted levy which may be higher or lower than original levy.  
 (4) Percent is based on original levy which may be higher or lower than percent of adjusted levy.

CITY OF FARMERS BRANCH, TEXAS

RATIO OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(UNAUDITED)

FISCAL YEAR	GOVERNMENTAL ACTIVITIES		PERCENTAGE OF ACTUAL TAXABLE VALUE OF PROPERTY (1)	PER CAPITA	BUSINESS-TYPE ACTIVITIES			
	GENERAL BONDED DEBT				WATER REVENUE BONDS	ASSESSMENT REVENUE BONDS	TOTAL PRIMARY GOVERNMENT	PERCENTAGE OF MONEY INCOME (2)
	GENERAL	CERTIFICATES						
	OBLIGATION BONDS	OF OBLIGATION						
1997	\$ 28,300,000	\$	1.02%	\$ 1,155	\$ 1,215,000	\$ 10,715,000	\$ 40,230,000	9.59%
1998	25,970,000		0.85%	976	935,000	10,340,000	37,245,000	8.18%
1999 <sup>a</sup>	23,585,000	4,800,000	0.85%	1,055	640,000	9,945,000	38,970,000	8.46%
2000 <sup>b</sup>	21,130,000	4,610,000	0.73%	936	330,000	6,215,000	32,285,000	6.85%
2001	18,590,000	4,380,000	0.62%	835		5,780,000	28,750,000	6.10%
2002	15,970,000	4,135,000	0.51%	726		5,325,000	25,430,000	3.68%
2003	13,524,233	3,880,000	0.46%	622		4,209,292	21,613,525	3.10%
2004 <sup>c</sup>	10,582,657	12,475,000	0.65%	842		3,734,392	26,792,049	3.92%
2005	7,591,081	12,190,000	0.61%	717		3,245,000	23,026,081	3.35%
2006	4,539,505	11,865,000	0.50%	589		2,745,000	19,149,505	2.76%

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule C-1 for taxable value of property data.

(2) See Schedule E-1 for population data and money income.

a The City issued Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, in the amount of \$4,800,000 which are being paid from hotel occupancy tax revenues. The City could discontinue its policy of paying such debt from hotel tax receipts, and, in lieu thereof levy an ad valorem tax or use other lawfully available funds to pay such obligations.

b The City retired early \$3,315,000 of assessment revenue bonds.

c The City issued Combination Tax and Revenue Certificates of Obligation Taxable Series 2004 in the amount of \$7,895,000 and Tax Exempt Series 2004A in the amount of \$970,000. The Taxable Series 2004 are being paid from amounts received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P. Payments under the Lease are not pledged to the repayment of the Taxable Series 2004. If the City determines not to use payments under the Lease or if such amounts are insufficient to pay debt service on the Taxable Series 2004, the City will be required to levy an ad valorem tax to pay such obligations.

TABLE 10

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PER CAPITA	
<hr/>	
\$	1,642
	1,400
	1,449
	1,174
	1,045
	918
	772
	978
	834
	688



DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

GOVERNMENTAL UNIT	DEBT OUTSTANDING	ESTIMATED PERCENTAGE OVERLAPPING	ESTIMATED SHARE OF OVERLAPPING DEBT
Debt repaid with property taxes			
Carrollton - Farmers Branch			
Independent School District	\$ 373,708,771	20.37%	\$ 76,124,477
Valwood Improvement Authority	12,321,213	44.44%	5,475,547
Dallas County	184,788,780	2.44%	4,508,846
Dallas County Hospital District		2.44%	
Dallas County Community College			
District	100,380,000	2.44%	2,449,272
Dallas Independent School District	1,494,285,295	1.19%	17,781,995
Subtotal, overlapping debt	2,165,484,059		106,340,137
City direct debt (1)	10,363,486	100.00%	10,363,486
Total direct and overlapping bonded debt	\$ 2,175,847,545		\$ 116,703,623
Ratio of overlapping bonded debt to taxable assessed valuation (valued at 100% of market value)			
		3.54%	
Per capita overlapping bonded debt			
		\$ 4,190	(2)

Source: Municipal Advisory Council of Texas

Notes:

- (1) The City direct debt includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, in the amount of \$4,800,000, which are being paid from hotel occupancy tax revenues and Combination Tax and Revenue Certificates of Obligation, Taxable Series 2004, in the amount of \$7,895,000, which are being paid from amounts received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P.
- (2) Based on North Central Texas Council of Governments population estimate.

PLEDGED REVENUE COVERAGE  
 LAST TEN FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	ASSESSMENT COLLECTIONS	DEBT SERVICE REQUIREMENTS			COVERAGE
		PRINCIPAL	INTEREST	TOTAL	
1997	\$ 963,428	\$ 360,000	\$ 563,308	\$ 923,308	1.04
1998	853,197	375,000	544,932	919,932	0.93
1999	932,322	395,000	525,683	920,683	1.01
2000	593,630	415,000	505,433	920,433	0.64
2001	720,190	435,000	305,173	740,173	0.97
2002	1,482,180	455,000	283,605	738,605	2.01
2003	763,768	480,000	184,417	664,417	1.15
2004	1,055,516	474,900	119,930	594,830	1.77
2005	805,951	489,900	105,455	595,355	1.35
2006	417,137	499,900	90,605	590,505	0.71

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS  
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	LABOR FORCE (2)	UNEMPLOYMENT RATE % (2)	INCOME PER CAPITA (3)	MONEY INCOME (4)
1997	24,500	16,654	3.5%	\$ 17,122	\$ 419,489,000
1998	26,600	17,084	3.2%	17,122	455,445,200
1999	26,900	17,174	3.0%	17,122	460,581,800
2000	27,508	17,457	3.1%	17,122	470,991,976
2001	27,508	17,948	5.2%	17,122	470,991,976
2002	27,700	17,735	6.5%	24,921	690,311,700
2003	28,000	17,396	6.5%	24,921	697,788,000
2004	27,400	17,076	5.5%	24,921	682,835,400
2005	27,595	15,282	5.3%	24,921	687,694,995
2006	27,850	15,331	4.5%	24,921	694,049,850

Sources:

- (1) Estimates provided by North Central Texas Council of Governments with exception of fiscal years 2000 and 2001, which are based on the 2000 Census.  
 (2) Labor force and unemployment rate figures are estimates for the City of Farmers Branch civilian labor force as of September and is provided by the Texas Workforce Commission.  
 (3) Income Per Capita information is provided by the U.S. Bureau of the Census and is based on the most current census at the time of its availability.  
 (4) Money income is derived by multiplying per capita income by the estimated population.

The following information is provided by the North Central Texas Council of Governments based on 2000 census information.

Households:	9,766	Male:	13,849
Families:	6,938	Female:	13,659

Racial Breakdown

White	21,560
Black	661
American Indian	150
Asian or Pacific Islander	813
Other	4,324

\* Nativity

Born in State	13,628
Born Out-of-State	7,301
Foreign Born	7,125
Born Abroad or in Outlying Areas	271

Source: North Central Texas Council of Governments

\* The figures presented may total more than the population because individuals may report more than one (single or multiple) ancestry.

PRINCIPAL EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO  
(UNAUDITED)

EMPLOYER	2006			1997		
	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY CITY EMPLOYMENT	EMPLOYEES	RANK	PERCENTAGE OF TOTAL CITY CITY EMPLOYMENT
IBM Corporation	2,500	1	0.03%	36,933,710	4	1.34%
JPMorgan Investment Services	1,700	2	2.52%	82,300,720	1	2.98%
Dallas Semiconductor	1,300	3	1.88%			
GEICO	1,200	4	1.50%	36,691,730	5	1.33%
Cingular Wireless	925	5	1.48%	40,323,200	2	1.46%
TD Industries	811	6	1.28%			
Essilor Labs of America	660	7	1.25%	35,225,770	6	1.28%
Monitronics International	604	8	1.13%			
Fannie Mae	600	9	1.04%			
Glazer's	600	10	0.88%			
Occidental Chemical				29,261,950	10	1.06%
Sprint Communications Company						
Stream International				39,049,990	3	1.41%
Sysco Food Systems				32,785,930	7	1.19%
Sea-Land Service, Inc.				32,073,160	8	1.16%
Aviall				30,709,040	9	1.11%
	10,900		12.99%	395,355,200		14.32%

## Source:

City of Farmers Branch Economic Development Department and the North Central Texas Council of Governments (NCTCOG) website. The NCTCOG website provided the total employment for the 5-year periods of 1995 and 2000. The 1997 total employment of 63,066 was derived by prorating the change between 1995 and 2000. Total employment data for 2005 is not yet available. The most recent total employment data available is for 2000 in the amount of 75,013. This amount was used for 2006 total employment.

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
 LAST FIVE FISCAL YEARS  
 (UNAUDITED)

Function/Program	Full-time Equivalent Employees as of September 30				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government	71.40	68.07	66.02	65.52	74.63
General administration	9.25	8.50	8.50	8.50	7.50
Convention	0.30	0.00	0.00	0.00	0.00
Communications	5.10	5.10	4.16	4.16	4.22
Economic development	2.00	2.00	2.00	2.00	2.00
Human resources	8.00	7.00	7.00	7.00	7.00
Finance	20.00	18.50	18.50	19.00	29.00
Community services	26.63	26.63	25.63	24.63	24.70
Other	0.12	0.35	0.23	0.23	0.21
Public safety	185.61	185.26	187.46	188.74	178.02
Police	117.81	117.81	119.81	120.31	109.81
Fire	66.00	64.00	64.00	65.22	65.28
Other	1.80	3.45	3.65	3.21	2.93
Public works	71.56	69.03	62.03	61.03	57.94
Engineering	22.00	22.00	19.00	18.00	18.00
Public works	45.00	43.00	39.00	39.00	36.27
Other	4.56	4.03	4.03	4.03	3.68
Culture and recreation	133.79	127.21	124.68	128.56	130.34
Parks	102.17	99.67	98.12	101.93	101.93
Library	24.93	23.18	22.93	23.00	25.00
Tourism	3.82	2.07	1.07	1.07	1.07
Other	2.88	2.30	2.56	2.56	2.34
Water and sewer	31.00	31.00	30.00	30.00	27.00
Water and sewer	31.00	31.00	30.00	30.00	27.00
Equipment services	2.64	1.38	1.47	1.47	1.34
Equipment services	2.64	1.38	1.47	1.47	1.34
Total	496.00	481.95	471.65	475.31	469.27

Source: Finance Department

Note: Information prior to fiscal year 2002 is not available.

SCHEDULE OF INSURANCE POLICIES IN FORCE  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

POLICY ISSUED BY	AM BEST RATING	POLICY NUMBER	POLICY PERIOD	COVERAGE	DEDUCTIBLES	LIABILITY LIMITS
Texas Municipal League Intergovernment Risk Pool	A++	04687	10/1/2005 9/30/2006	General Liability	\$ 50,000	\$ 2,000,000
				Property	5,000	61,997,915
				Auto Liability	25,000	1,000,000
				Auto Physical Damage	2,500	Actual Cash Value
				Law Enforcement Liability	25,000	1,000,000
				Errors & Omissions	50,000	1,000,000
				Mobile Equipment	5,000	1,327,796
				Boiler & Machinery	5,000	8,000,000
				Employee Fidelity Bond	2,500	250,000
				Workers' Compensation	N/A	350,000 *(SIR)
				Animal Mortality (K-9)	25 / 50	8,000
The Hartford Casualty Insurance Company	A+	61BSBDB6431	10/1/2005 9/30/2006	Fidelity Bond for Finance Director	2,500	250,000
Great American Excess & Surplus Insurance Company	A++	BTA5279922	10/1/2005 9/30/2006	Underground Storage Tank	10,000	1,000,000

NOTES: Claims Administrators - Workers' Compensation, TML Claims, 18601 LBJ Freeway, Suite 210, Town East Tower, Mesquite, Texas 75150.

\*(SIR) "Self Insured Retention"

CITY OF FARMERS BRANCH, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS  
(UNAUDITED)

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Public safety					
Police					
Number of employees	100	100	109	113	113
Number of sworn officers	71	71	74	73	73
Number of violations (citations)	24,009	25,199	29,502	26,127	33,309
Fire					
Number of employees	67	67	64	64	64
Number of EMS runs	1,985	1,992	2,707	2,199	2,169
Number of fire runs	3,430	3,814	3,738	3,704	3,688
Public works					
Street reconstruction (lane-miles)	1.0	1.0	2.0	2.0	0.7
Street resurfacing (lane-miles)	16.0	18.0	14.0		12.0
Culture and recreation					
Parks					
Recreation memberships sold (basic)	(1)				
Recreation memberships sold (fitness)	(1)				
Total pool admissions	N/A	N/A	N/A	21,100	28,369
Visits to Historical Park	N/A	N/A	N/A	N/A	29,520
Library					
Volumes borrowed	255,725	241,928	223,198	239,127	255,345
Volumes in library collection	91,875	96,532	100,977	97,170	94,245
Water and sewer					
Average daily water consumption (thousands of gallons)	8,345	9,673	8,861	10,380	9,497
Number of water consumers	9,008	9,214	9,307	9,398	9,405

Sources: Various city departments.

Note: N/A - data unavailable at time of publication.

(1) The recreation center was out of service from December 2002 until January 2004 while a new facility was being constructed. Prior to January 2004, the city did not sell memberships to the recreation center.

TABLE 17

Fiscal Year				
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
114	114	117	114	118
73	74	74	74	74
36,539	40,466	29,308	23,207	19,091
64	64	64	64	65
2,048	1,999	1,912	2,083	1,994
3,596	3,508	3,302	3,113	3,071
0.6	0.8	1.0	1.2	1.0
18.0	15.0	11.0	11.0	11.0
			1,409	2,364
			894	1,771
22,792	25,499	19,537	16,757	16,835
49,493	47,947	51,106	49,706	48,293
305,218	400,687	428,820	428,096	451,295
98,462	97,499	101,156	104,018	111,617
8,620	8,833	7,856	8,083	8,423
9,433	9,467	9,442	9,444	9,490



CITY OF FARMERS BRANCH, TEXASCAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS  
(UNAUDITED)

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Public safety					
Police stations	1	1	1	1	1
Patrol units	14	14	14	14	14
Fire stations	2	2	2	2	2
Public works					
Streets (lane miles)	375	375	378	378	378
Traffic signals	50	50	50	50	50
Landfill capacity (million cubic yards)	24.5	24.5	24.5	24.5	24.5
Culture and recreation					
Acreage	400	400	400	400	400
Parks	26	28	28	28	28
Playgrounds	N/A	N/A	N/A	N/A	N/A
Swimming pool	1	1	1	1	1
Recreation center	1	1	1	1	1
Senior center	1	1	1	1	1
Library	1	1	1	1	1
Historical park	1	1	1	1	1
Utilities					
Water mains (miles)	164.5	168.3	168.9	169.0	169.5
Fire hydrants	1,740	1,794	1,806	1,831	1,839
Storage capacity (millions of gallons)	20.0	20.0	20.0	20.0	19.5
Sanitary sewers (miles)	135.5	136.6	137.4	137.8	138.2
Storm sewers (miles)	100	100	100	100	100

Sources: Various city departments.

Note: No capital asset indicators are available for the general government or library function.

TABLE 18

Fiscal Year				
<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1	1	1	1	1
14	14	14	14	15
2	2	2	2	2
378	378	398	398	398
49	49	49	49	52
24.5	24.5	24.5	24.5	24.5
400	400	400	400	400
28	28	28	28	28
12	12	12	12	12
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
170.8	170.8	171.0	171.0	171.0
1,857	1,859	1,861	1,864	1,864
19.5	19.5	21.5	21.5	21.5
139.2	139.2	139.2	139.2	139.2
101	101	101	101	101

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## CONTINUING FINANCIAL DISCLOSURE TABLES

(Unaudited)

The Continuing Financial Disclosure Tables present various financial data originally distributed in a debt official statement. The city is required to update financial tables originally distributed in a debt official statement within six months after the end of the fiscal year ending on or after September 30, 1999. The financial tables that follow are updated through September 30, 2006, from the last debt issues that were sold July of 1999. This financial information is also sent to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the Securities and Exchange Commission ("SEC").

VALUATIONS, EXEMPTIONS, AND GENERAL OBLIGATION DEBT  
(UNAUDITED)

<b>2006/2007 Market Valuation Established by DCAD</b>		<b>\$ 4,394,535,780</b>
(excluding totally exempt property)		
Less Exemptions/Reductions at 100% Market Value:		
Totally Exempt Parcels	\$ 217,776,950	
Tax Abatements	252,471,456	
Homestead	187,397,440	
Over 65	129,457,042	
Freeport	91,234,057	
Capped Value Loss	2,654,733	
Disabled Persons	5,467,360	
Disabled Veterans	1,350,284	
Poll Cntl	1,037,298	
Under 500	32,290	
Mineral Rights	1,400	
Total Exemptions		<u>888,880,310</u>
<b>2006/2007 Net Taxable Assessed Valuation</b>		<b><u>\$ 3,505,655,470</u></b>
<b>City Funded Debt Payable From Ad Valorem Taxes</b> (1)		
Outstanding General Obligation Debt	\$ 4,539,505	
Certificates of Obligation	3,025,000	
Series 2004 Taxable Certificates	7,895,000	
Series 2004A Certificates	945,000	
<b>City Funded Debt Payable from Ad Valorem Taxes</b>		<b>\$ 16,404,505</b>
Less: Self Supporting Debt (Certificates of Obligation)	(2)	3,025,000
Series 2004 Taxable Certificates	(3)	<u>7,895,000</u>
<b>Net General Obligation Debt Payable from Ad Valorem Taxes</b>		<b><u>\$ 5,484,505</u></b>
<b>General Obligation Interest and Sinking Fund</b>		<b>152,873</b>
<b>Ratio of Gross General Obligation Tax Debt to Taxable Assessed Valuation</b>		<b>0.468%</b>
<b>Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation</b>		<b>0.156%</b>

2006 Estimated Population - 27,850

Per Capita Taxable Assessed Valuation - \$125,876

Per Capita Funded Debt Payable from Ad Valorem Taxes - \$197

- (1) As of September 30, 2006, the above statement of indebtedness does not include currently outstanding \$2,745,000 assessment and utility system revenue bonds, as these bonds are payable from the Pledged Assessments and Pledged Utility System Revenues. Pledged Assessments are the revenues of the City derived from a special assessment levied on property within the Public Improvement District No. 1, and the real and true owners thereof, pursuant to the Assessment Ordinance.
- (2) Self Supporting Debt consists of the City's Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, which are being paid from hotel occupancy tax revenues. The City could discontinue its policy of paying such debt from hotel tax receipts, and, in lieu thereof levy an ad valorem tax or use other lawfully available funds to pay such obligations.
- (3) The City believes the Series 2004 Taxable Certificates will be self-supporting based upon amounts to be received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P., a Delaware Limited Partnership, with respect to the Facility. Payments under the Lease are not pledged to the payment of the 2004 Taxable Certificates. If the City determines not to use payments under the Lease, or if such amounts are insufficient to pay debt service on the 2004 Taxable Certificates, the City will be required to levy an ad valorem tax to pay such obligations.

TAXABLE ASSESSED VALUATIONS BY CATEGORY  
(UNAUDITED)

	2007		2006		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,148,704,570	26.15%	\$ 1,139,792,540	26.77%	\$ 1,094,238,150	27.16%
Real, Residential, Multi-Family	113,458,300	2.58%	99,053,820	2.33%	101,827,920	2.53%
Real, Vacant Lots/Tracts	169,223,190	3.85%	140,287,090	3.30%	94,049,770	2.33%
Real, Commercial	1,926,143,250	43.83%	1,792,442,010	42.10%	1,616,208,860	40.12%
Real, Industrial	20,850,330	0.47%	18,148,400	0.43%	18,262,680	0.45%
Real, Oil, Gas, and Other Mineral Reserves	800	0.00%	800	0.00%	800	0.00%
Real, Non-Producing Minerals	600	0.00%	600	0.00%	700	0.00%
Real and Tangible Personal, Utilities	123,727,260	2.82%	170,512,140	4.00%	127,695,500	3.17%
Tangible Personal, Commercial	688,795,260	15.67%	643,301,960	15.11%	706,858,590	17.55%
Tangible Personal, Industrial	203,632,220	4.63%	253,541,400	5.96%	269,431,220	6.69%
Total Appraised Value Before Exemptions	4,394,535,780	100.00%	4,257,080,760	100.00%	4,028,574,190	100.00%
Less: Total Exemptions/Reductions	888,880,310		959,339,732		774,948,113	
Taxable Assessed Value	<u>\$ 3,505,655,470</u>		<u>\$ 3,297,741,028</u>		<u>\$ 3,253,626,077</u>	

	2004		2003	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,067,323,700	24.27%	\$ 1,017,693,400	21.90%
Real, Residential, Multi-Family	95,493,350	2.17%	102,049,760	2.20%
Real, Vacant Lots/Tracts	156,556,220	3.56%	161,164,390	3.47%
Real, Commercial	1,831,436,620	41.65%	2,008,439,560	43.23%
Real, Industrial	19,046,140	0.43%	24,503,140	0.53%
Real, Oil, Gas, and Other Mineral Reserves	800	0.00%	800	0.00%
Real, Non-Producing Minerals	700	0.00%	700	0.00%
Real and Tangible Personal, Utilities	150,718,140	3.43%	178,992,860	3.85%
Tangible Personal, Commercial	756,525,850	17.21%	862,450,850	18.56%
Tangible Personal, Industrial	319,959,400	7.28%	290,897,990	6.26%
Total Appraised Value Before Exemptions	4,397,060,920	100.00%	4,646,193,450	100.00%
Less: Total Exemptions/Reductions	838,848,527		860,904,724	
Taxable Assessed Value	<u>\$ 3,558,212,393</u>		<u>\$ 3,785,288,726</u>	

## Notes:

Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

VALUATION AND GENERAL OBLIGATION DEBT HISTORY  
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	TAXABLE ASSESSED VALUATION	TAXABLE ASSESSED VALUATION PER CAPITA (2)	G.O. TAX DEBT OUTSTANDING AT END OF YEAR	RATIO OF G.O. TAX DEBT TO TAXABLE ASSESSED VALUATION (2)	G.O. TAX DEBT PER CAPITA (2)
2003	28,000	\$ 3,785,288,726	\$ 135,189	\$ 17,260,067 (3)	0.46%	(3) \$ 616 (3)
2004	27,400	3,558,212,393	129,862	22,925,019 (4)	0.64%	(4) 837 (3)
2005	27,595	3,253,626,077	117,906	19,705,019 (4)	0.61%	(4) 714 (4)
2006	27,850	3,297,741,028	118,411	16,299,011 (4)	0.49%	(4) 585 (4)
2007	27,850	3,505,655,470	125,876	12,738,794 (4)	0.36%	(4) 457 (4)

Notes:

- (1) Based on North Central Texas Council of Governments original population estimates with the exception of current fiscal year, which is a projection.  
 (2) As reported by the Dallas Central Appraisal District on the City's annual State Property Tax Report; subject to change during the ensuing year.  
 (3) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation.  
 (4) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 2004 Taxable Certificates, and Series 2004A Certificates.

TAX RATE, LEVY, AND COLLECTION HISTORY  
 LAST FIVE FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	TAX RATE	GENERAL FUND	I & S FUND	TAX LEVY	% CURRENT COLLECTIONS	% TOTAL COLLECTIONS
2002	\$ 0.4400	\$ 0.3486	\$ 0.0914	\$ 17,208,844	98.00%	98.17%
2003	0.4400	0.3511	0.0889	16,655,270	97.23%	97.32%
2004	0.4600	0.3670	0.0930	16,367,777	96.18%	96.66%
2005	0.4945	0.3965	0.0980	16,089,181	99.71%	100.63%
2006	0.4945	0.3985	0.0960	16,307,329	100.63%	101.51%



TEN LARGEST TAXPAYERS  
FISCAL YEAR 2007  
(UNAUDITED)

TAXPAYER	NATURE OF PROPERTY	TAXABLE VALUE	PERCENTAGE OF TOTAL CERTIFIED TAXABLE VALUE
Southwestern Bell/Cingular	Telecommunications	\$ 90,993,790	2.59%
Prentiss Properties Real	Real Estate Developers	84,180,030	2.40%
Providence Towers Dallas	Real Estate Developers	77,061,010	2.20%
Dallas Semiconductor	Semiconductor Manufacturing	72,256,375	2.06%
Occidental Chemical Tower Corp.	Chemical Production	63,680,980	1.82%
Quebecor Printing Inc.	Printing	51,422,550	1.47%
Daltex Centre LP	Real Estate Developers	42,177,340	1.20%
Glazers	Spirit and Wine Distribution	40,851,720	1.17%
Tuesday Morning PS Ltd	Retail	33,740,017	0.96%
Castle Dallas LLP	Real Estate Developers	30,879,130	0.88%
		<u>\$ 587,242,942</u>	<u>16.75%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

TAX ADEQUACY  
(UNAUDITED)

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2007 Principal and Interest Requirements (1)	\$ 4,326,791
\$0.1247 Tax Rate at 99% Collection Produces	4,327,837
Average Annual Principal and Interest Requirements, 2006-2014 (1)	2,733,667
\$0.0788 Tax Rate at 99% Collection Produces	2,734,832

## Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

CITY OF FARMERS BRANCH, TEXAS

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS  
(UNAUDITED)

FISCAL YEAR	OUTSTANDING DEBT (1)			CERTIFICATES OF OBLIGATION (2)		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2007	\$ 3,099,505	\$ 95,302	\$ 3,194,807	\$ 515,000	\$ 616,984	\$ 1,131,984
2008	415,000	46,158	461,158	540,000	596,225	1,136,225
2009	420,000	33,707	453,707	565,000	573,303	1,138,303
2010	195,000	21,108	216,108	590,000	548,400	1,138,400
2011	200,000	14,770	214,770	615,000	520,774	1,135,774
2012	210,000	7,770	217,770	2,620,000	2,131,021	4,751,021
2013				1,755,000	1,583,865	3,338,865
2014				2,330,000	1,010,445	3,340,445
	<u>\$ 4,539,505</u>	<u>\$ 218,815</u>	<u>\$ 4,758,320</u>	<u>\$ 9,530,000</u>	<u>\$ 7,581,017</u>	<u>\$ 17,111,017</u>

Notes:

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Combination Tax and Hotel Occupancy Tax Certificates of Obligation - average life of issue - 9.074 years. Combination Tax and Revenue Certificates of Obligation Series 2004 - average life of issue - 16.657 years. Combination Tax and Revenue Certificates of Obligation Series 2004A - average life of issue - 14.98 years.

SPECIAL ASSESSMENT DEBT SERVICE REQUIREMENTS  
(UNAUDITED)

FISCAL YEAR	ASSESSMENT BONDS (1)			TOTAL DEBT SERVICE REQUIREMENTS	% OF PRINCIPAL RETIRED
	PRINCIPAL	INTEREST	TOTAL		
2007	\$ 520,000	\$ 76,505	\$ 596,505	\$ 596,505	18.94%
2008	530,000	62,717	592,717	592,717	38.25%
2009	550,000	46,905	596,905	596,905	58.29%
2010	565,000	29,340	594,340	594,340	78.87%
2011	580,000	10,150	590,150	590,150	100.00%
	<u>\$ 2,745,000</u>	<u>\$ 225,617</u>	<u>\$ 2,970,617</u>	<u>\$ 2,970,617</u>	

Notes:

(1) Average life of the issue - 4.529 years.

TABLE CD-7

TOTAL DEBT SERVICE REQUIREMENTS		% OF PRINCIPAL RETIRED
\$	4,326,791	25.69%
	1,597,383	32.48%
	1,592,010	39.48%
	1,354,508	45.06%
	1,350,544	50.85%
	4,968,791	70.97%
	3,338,865	83.44%
	3,340,445	100.00%
\$	21,869,337	

INTEREST AND SINKING FUND BUDGET PROJECTION  
(UNAUDITED)

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/07	(1)		\$ 4,326,791
Interest and Sinking Fund, 9/30/06		\$ 152,873	
Interest and Sinking Fund Tax Levy @ 99% Collection		3,209,800	
Transfer for Hotel Occupancy Tax Debt Service		471,300	
Transfer for Tax and Revenue Debt Service		500,600	
Estimated Investment Income			4,334,573
Estimated Balance 9/30/07			<u>\$ 7,782</u>

Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

COMPUTATION OF SELF-SUPPORTING DEBT <sup>(1)</sup>  
(UNAUDITED)

	(2)	
Hotel/Motel Occupancy Tax Revenues		\$ 2,249,499
Less: Requirements for Hotel Occupancy Tax Certificates of Obligation		466,235
Balance Available for Other Purposes		<u>\$ 1,783,264</u>

Notes:

- (1) The City has determined that the Series 2004 Taxable Certificates will be self-supporting general obligation debt based upon amounts to be received under the terms of a Ground Lease Agreement (the "Lease") between the City and the lessee, the Dallas Stars L.P. (the "Dallas Stars"), which Lease relates to the community-style recreational ice-skating and conference facility being financed in part with the proceeds of the Series 2004A Certificates and in part with the proceeds of the Series 2004 Taxable Certificates. The obligation of the Dallas Stars to make lease payments to the City to support the payment of the Series 2004 Taxable Certificates is dependent on the satisfaction of certain initial and ongoing requirements in the Lease, particularly including the Lease provision that a certificate of occupancy be issued for the ice skating facility prior to the commencement of the lease term. The City is of the view that such lease provisions are customary, but anticipates that a portion of the debt service for the Certificates during the construction period of the facility will be funded from transfers from other available sources.
- (2) The City's Series 1999 Certificates of Obligation are secured by a pledge of the ad valorem taxes and receipts from the 7% hotel occupancy tax collected by the City for the promotion of tourism in the City. Since the Series 1999 Certificates of Obligation were issued, the City has transferred hotel tax revenues to the debt service fund to pay debt service on the Series 1999 Certificates of Obligation and anticipates that it will continue to do so to pay the outstanding Series 1999 Certificates of Obligation.

HOTEL/MOTEL TAX REVENUE  
LAST TEN FISCAL YEARS  
(UNAUDITED)

<u>FISCAL YEAR</u>	<u>HOTEL/MOTEL TAX REVENUE</u>	<u>NUMBER OF ROOMS</u>
1997	\$ 2,028,373	1,862
1998	2,140,128	1,945
1999	2,289,980	2,212
2000	2,803,435	2,207
2001	2,534,403	2,207
2002	2,026,831	2,172
2003	1,797,279	2,172
2004	1,786,530	2,173
2005	1,965,693	2,194
2006	2,249,499	2,196

HOTEL OCCUPANCY TAXPAYERS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

HOTEL	NUMBER OF ROOMS	TAXES PAID	% OF TOTAL
Omni @ Park West	337	\$ 589,184	26.19%
Wyndham Dallas North	310	412,420	18.34%
Holiday Inn Select North Dallas	377	280,044	12.45%
Doubletree Hotel Dallas	289	359,525	15.98%
Doubletree Club Hotel	160	248,318	11.04%
Fairfield Inn	107	119,946	5.33%
LaQuinta Inn	122	70,936	3.15%
Best Western Dallas North	160	43,932	1.95%
Econolodge Dallas Airport North	120	32,036	1.42%
Studio Plus	86	36,155	1.61%
Comfort Inn North Dallas	50	33,064	1.47%
Days Inn North Dallas	72	22,372	1.00%
Villas at Parkside	2	103	0.00%
Lakeside at Parkside	2	169	0.01%
Chateau Ritz	2	1,295	0.06%
	<u>2,196</u>	<u>\$ 2,249,499</u>	<u>100.00%</u>



AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS  
(UNAUDITED)

PURPOSE	DATE AUTHORIZED	AMOUNT AUTHORIZED	AMOUNT PREVIOUSLY ISSUED	UNISSUED BALANCE
Park Improvements	1985	\$ 6,925,000	\$ 2,500,000	\$ 4,425,000
Street Improvements	1985	20,060,000	10,340,000	9,720,000
Firefighting Equipment	1985	1,005,000	215,000	790,000
Recreation Center	1985	735,000		735,000
Police Facilities	1985	120,000	15,000	105,000
Municipal Service Center	1985	1,940,000		1,940,000
Drainage & Erosion	1985	9,270,000	7,945,000	1,325,000
Water System Improvements	1985	16,695,000	8,750,000	7,945,000
Transit Facility	1985	1,000,000		1,000,000
		<u>\$ 57,750,000</u>	<u>\$ 29,765,000</u>	<u>\$ 27,985,000</u>

GENERAL FUND REVENUE AND EXPENDITURE HISTORY  
 FISCAL YEARS ENDED SEPTEMBER 30  
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2006	2005	2004	2003	2002
<b>REVENUES</b>					
Property, sales, and franchise taxes	\$ 30,494,007	\$ 28,236,045	\$ 27,455,482	\$ 27,545,022	\$ 29,830,831
Licenses and permits	901,032	702,623	679,716	535,374	651,010
Charges for services	4,553,630	4,689,222	4,381,900	3,943,948	3,784,796
Fines and forfeitures	2,520,119	2,681,631	2,809,120	2,495,920	2,356,955
Investment income	970,781	565,953	260,620	386,423	669,064
Miscellaneous	125,666	106,459	281,626	70,914	106,199
Total revenues	39,565,235	36,981,933	35,868,464	34,977,601	37,398,855
<b>EXPENDITURES</b>					
Current:					
General government	8,401,617	7,568,695	7,746,021	7,396,741	7,669,477
Public safety	15,777,257	16,029,225	15,678,103	14,255,541	13,881,317
Public works	6,736,532	6,685,000	6,552,672	7,154,373	7,064,397
Culture and recreation	9,376,904	9,025,479	8,296,717	8,208,649	8,024,120
Total expenditures	40,292,310	39,308,399	38,273,513	37,015,304	36,639,311
Excess (deficiency) of revenues over (under) expenditures	(727,075)	(2,326,466)	(2,405,049)	(2,037,703)	759,544
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	2,612,451	2,332,842	2,332,632	2,301,900	2,282,520
Transfers out	(137,500)	(633,500)	(537,500)	(2,925,000)	(3,873,000)
Sale of capital assets/insurance recoveries	257,523	154,147	268,878	22,548	106,229
Total other financing uses	2,732,474	1,853,489	2,064,010	(600,552)	(1,484,251)
Net change in fund balance	2,005,399	(472,977)	(341,039)	(2,638,255)	(724,707)
Fund balances--beginning	13,128,302	13,601,279	13,942,318	16,580,573	17,305,280 (1)
Fund balances--ending	\$ 15,133,701	\$ 13,128,302	\$ 13,601,279	\$ 13,942,318	\$ 16,580,573

(1) Restated.

MUNICIPAL SALES TAX HISTORY  
 LAST FIVE FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	TOTAL COLLECTED	% OF AD VALOREM TAX LEVY	EQUIVALENT OF AD VALOREM TAX RATE	PER CAPITA
2002	\$ 11,556,669	67.16%	\$ 0.2955	\$ 417.21
2003	10,048,764	60.33%	0.2655	358.88
2004	10,277,538	62.79%	0.2888	375.09
2005	10,789,405	67.06%	0.3316	390.99
2006	11,240,717	68.93%	0.3409	403.62

The sales tax breakdown for the City is as follows:

Dallas Area Rapid Transit	1.00¢
City Sales and Use Tax	1.00¢
State Sales and Use Tax	6.25¢
Total	<u>8.25¢</u>

CURRENT INVESTMENTS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

DESCRIPTION OF INVESTMENT	% OF PORTFOLIO	PURCHASE PRICE	MARKET VALUE
Treasury Notes	18.48%	\$ 9,901,619	\$ 9,920,155
Fannie Mae Notes	25.74%	13,792,067	13,985,927
Freddie Mac Notes	20.86%	11,177,349	11,323,948
Federal Home Loan Bank Notes	19.70%	10,554,487	10,589,495
Farmer Mac	4.27%	2,288,138	2,170,508
Federal Farm Credit Bank Note	7.43%	3,980,400	3,982,520
Repurchase Agreements	3.52%	1,883,746	1,883,746
	100.00%	\$ 53,577,806	\$ 53,856,299

SPECIAL ASSESSMENT COLLECTIONS AND DEBT SERVICE - ENTERPRISE FUND  
 FISCAL YEARS ENDED SEPTEMBER 30  
 (UNAUDITED)

FISCAL YEAR (1)	DEBT SERVICE REQUIREMENTS (2)	TOTAL ASSESSMENTS BILLED OR DUE FOR PAYMENT	TOTAL ASSESSMENTS COLLECTED (3) (4)
1994	\$ 635,900	\$	\$ 38,515
1995	871,985	515,614	229,816
1996	932,308	846,329	1,689,785
1997	929,308	772,085	963,428
1998	930,558	754,460	853,197
1999	930,808	754,460	932,322
2000	930,058	751,939	593,630
2001	928,308	743,424	720,190
2002	758,605	681,022	1,482,180
2003	664,417	632,665	763,768
2004	594,830	557,068	1,055,516
2005	595,355	506,656	805,951
2006	590,505	498,150	417,137
2007	596,505	498,150	
2008	592,718	498,150	
2009	596,905	498,150	
2010	594,340	498,150	
2011	590,150	498,150	

(1) The annual assessment due date occurs within one day of the close of the fiscal year. A portion of the collections for a particular billing may be reflected in the following fiscal year.

(2) A portion of the debt service due in 1994 and 1995 was paid from capitalized interest funded in the amount of \$929,393 from the proceeds of the Refunded Obligations. Amounts shown reflect effects of an extraordinary optional redemption on July 1, 2000 of \$3,315,000 from excess assessment collections. The City anticipates that the final year of debt service will be paid from amounts on deposit in the Reserve Fund.

(3) Some assessments in 1994 were prepaid prior to the commencement of billing. Assessment billings and collections include interest.

(4) Total collections reflect payments for assessments currently due and for assessment balances paid off during the year.

HISTORICAL WATER AND WASTEWATER USAGE  
 LAST FIVE FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	WATER USAGE AMOUNT IN GALLONS (000)			WASTE WATER CONSUMPTION AMOUNT IN GALLONS (000)
	TOTAL CONSUMPTION	PEAK DAY	AVERAGE DAY	TOTAL USAGE
2002	3,146,177	18,426	8,620	2,164,228
2003	3,224,111	17,765	8,833	2,196,523
2004	2,867,538	13,556	7,856	1,991,700
2005	2,950,227	14,813	8,083	1,709,434
2006	3,523,898	17,573	9,655	1,225,346

Note: Total Consumption represents total water purchased by the City.

TOP TEN WATER CONSUMERS  
 SEPTEMBER 30, 2006  
 (UNAUDITED)

CONSUMER	TYPE OF INDUSTRY	2005-06 CONSUMPTION (GALLONS)	% OF TOTAL CONSUMPTION	2005-06 REVENUES	% OF REVENUES
Dallas Semiconductor	Manufacturing	175,494,000	5.0%	\$ 582,453	5.2%
Brookhaven Country Club	Recreation	55,753,000	1.6%	185,174	1.6%
Lakeview at Parkside	Real Estate	55,206,000	1.6%	211,062	1.9%
Ventana at Valwood	Real Estate	47,447,000	1.3%	163,414	1.4%
Colinas Crossing	Real Estate	46,612,000	1.3%	157,982	1.4%
Dallas County Community College District	Education	45,255,000	1.3%	150,445	1.3%
Parish Day School	Education	39,194,000	1.1%	129,775	1.1%
Daltex	Real Estate Developers	38,230,000	1.1%	127,077	1.1%
Quebecor World	Printing	37,710,000	1.1%	125,123	1.1%
Park West C-3 Associates	Real Estate Developers	34,242,000	1.0%	95,916	0.8%

Source: City of Farmers Branch Finance Department

MONTHLY WATER AND SEWER RATES  
 LAST TEN FISCAL YEARS  
 (UNAUDITED)

FISCAL YEAR	WATER RATES				SEWER RATES	
	MONTHLY BASE 2,000 GALLONS	RATE PER 1,000 GALLONS			MONTHLY BASE 2,000 GALLONS	RATE PER 1,000
						GALLONS
		NEXT 8,000 GALLONS	NEXT 10,000 GALLONS	OVER 20,000 GALLONS		OVER
						2,001 GALLONS (1)
1997	\$ 7.98	\$ 2.35	\$ 2.44	\$ 2.53	\$ 8.17	\$ 1.11
1998	8.14	2.40	2.49	2.58	8.50	1.15
1999	(2)					
2000	8.38	2.47	2.56	2.66	8.76	1.18
2001	8.38	2.47	2.56	2.66	8.76	1.18
2002	8.38	2.47	2.56	2.66	8.76	1.18
2003	8.38	2.47	2.56	2.66	8.76	1.18
2004	8.80	2.59	2.56	2.66	9.20	1.24
2005	9.20	2.71	2.81	2.92	9.61	1.30
2006	10.44	3.08	3.19	3.31	10.91	1.48

## Notes:

Rates are based on 3/4" and 5/8" meters, which are the standard household meter sizes. The city charges an additional rate for non-standard meter sizes.

(1) Private residents are not charged for sewer beyond 10,000 gallons.

(2) On April 1, 1999, the city implemented a rate increase for both water and sewer equal to the rates shown for fiscal year 2000. Prior to this date, the 1998 rates were the effective rates.



CONDENSED STATEMENT OF WATER AND SEWER SYSTEM OPERATIONS  
 FISCAL YEARS ENDED SEPTEMBER 30  
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2006	2005	2004	2003	2002
REVENUES					
Charges for services	\$ 15,352,500	\$ 12,010,694	\$ 10,887,334	\$ 10,813,689	\$ 11,003,331
Investment income	411,189	169,269	93,944	208,977	397,468
Miscellaneous	8,043	7,311	1,431	2,408	2,619
Total revenues	<u>15,771,732</u>	<u>12,187,274</u>	<u>10,982,709</u>	<u>11,025,074</u>	<u>11,403,418</u>
EXPENDITURES					
Personal services	1,601,470	1,880,353	1,827,971	1,809,646	1,754,963
Materials and supplies	145,945	132,663	132,532	116,885	97,689
Maintenance and utilities	960,753	617,381	1,228,915	1,014,426	1,176,936
Purchase of water	4,356,520	3,769,111	3,553,117	3,651,392	3,484,888
Sewage treatment	1,787,319	2,028,647	2,117,145	2,235,130	2,193,699
Total expenditures	<u>8,852,007</u>	<u>8,428,155</u>	<u>8,859,680</u>	<u>8,827,479</u>	<u>8,708,175</u>
Net available for debt service	<u>\$ 6,919,725</u>	<u>\$ 3,759,119</u>	<u>\$ 2,123,029</u>	<u>\$ 2,197,595</u>	<u>\$ 2,695,243</u>
CUSTOMERS	9,490	9,444	9,442	9,467	9,433

Note: The above calculation of amounts available for payment of system debt service excludes non-cash expenses such as depreciation and amortization. Debt service payments are also excluded. Certain non-cash revenue sources, principally investment income, are included.

VALUE OF WATER AND SEWER SYSTEM  
FISCAL YEARS ENDED SEPTEMBER 30  
(UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2006	2005	2004	2003	2002
FIXED ASSETS					
Land	\$ 603,364	\$ 603,364	\$ 603,364	\$ 603,364	\$ 603,364
Buildings, improvements and infrastructure	76,851,066	73,174,563	70,314,657	69,281,085	68,829,458
Equipment	2,517,262	2,212,247	2,154,348	2,226,420	2,244,970
Construction in progress	1,238,980	2,476,987	4,714,884	5,930,045	2,082,497
Total value	81,210,672	78,467,161	77,787,253	78,040,914	73,760,289
Less depreciation	40,323,160	38,867,175	36,975,708	35,330,146	33,471,091
Net system value	<u>\$ 40,887,512</u>	<u>\$ 39,599,986</u>	<u>\$ 40,811,545</u>	<u>\$ 42,710,768</u>	<u>\$ 40,289,198</u>

CITY'S EQUITY IN WATER AND SEWER SYSTEM  
 FISCAL YEARS ENDED SEPTEMBER 30  
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2006	2005	2004	2003	2002
RESOURCES					
Net system value	\$ 40,887,512	\$ 39,599,986	\$ 40,811,545	\$ 42,710,768	\$ 40,289,198
Cash, investments, receivables, and prepaid items	13,240,484	9,799,616	9,452,476	10,419,515	12,965,059
Total resources	54,127,996	49,399,602	50,264,021	53,130,283	53,254,257
OBLIGATIONS					
Restricted liabilities	130,430	122,717	112,035	84,198	87,835
Current liabilities	493,216	730,049	1,460,822	2,845,217	1,694,426
Liability for compensated absences	316,294	454,621	425,511	419,192	445,280
Total obligations	939,940	1,307,387	1,998,368	3,348,607	2,227,541
Equity in system	\$ 53,188,056	\$ 48,092,215	\$ 48,265,653	\$ 49,781,676	\$ 51,026,716